





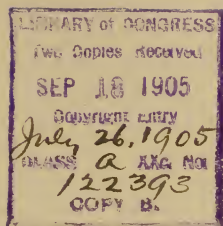
FATE OF THE MIDDLE CLASSES

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PREFACE

As we saw during the anthracite strike, the consumer is between the upper and the nether millstone.

The larger concern is not the fate of one class, but the welfare of all; nevertheless, injury to one element of the population afflicts the whole community and the only way to make sure of the general good is to guard the interests of every class with jealous care.

This end is best attained when each class realizes that self-protection is the best protection, self-help the best help, and self-respect the surest guaranty of the respect of others.

In nature everything but dead matter is organized, and organization is the method which self-help and self-protection must adopt.

The separate organization of the different members of society is as natural as the separate organization of hand and brain. Producers have their alignment and now comes the consumer.

No class has a monopoly of virtue, but each has its critical period and that time has arrived for the middle classes.

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INTRODUCTION

THE effect of trusts on the mass of mankind is the phase of this great development which most vitally concerns the public and many have essayed to tell what this effect will be. It is, however, impossible to arrive at any definite conclusion on the subject until we know what is the office for which this great institution was called into existence.

No great institution has ever developed among men until there was a task for it to perform, a task for which no previously existing institution was adequate.

Taking examples from politics, the institution feudalism, hateful as it was, came in time to gather the scattered fragments of civilization under baronial chiefs, and through their warfare and the conquests of chief over chiefs, became the stepping stone to monarchy.

Monarchy, repugnant as it is to our ideas of liberty, when hard pressed by the barons, appealed to the people, and thus took the first step to arouse in them the desire for self-government. Industry is developing along the same lines and its evolution just as surely tends to elevate the masses.

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Each institution serves its day and continues to serve other generations until conditions arise which require some other and different service by a new institution.

Turning to industry we find the early guilds of craftsmen serving their time well, up to the eighteenth century, when the factory system arose.

Then there was a new division of labor and its relations to capital became different from any that had been known before. Under the factory system the trades unions arose among working men, and during the century or more of their existence, these unions have had a remarkable development.

So far as capital is concerned, the factory system affected it by intensifying competition. An incidental effect was to hasten the accumulation of surplus products in the markets.

Increased competition at length reached the point where it was destructive to those engaged in the contest for trade. Finally there came a time when the stronger competitor crowded the weaker to the wall and the big fish swallowed the little fish. So consolidation came as the result of conflict, industrial peace as the natural consequence of industrial war.

All this is well understood, but with it there was a perfectly plain fact, looming as large as a mountain, which somehow escaped general no-

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tice. The hastening accumulation of surplus goods in the markets brought about stagnation every little while, and stagnation in business caused innumerable disorders, whose existence was not generally suspected until a financial panic emphasized the danger. During the past fifty years these periodical depressions have caused civilized countries more wrecks of fortune and more human suffering than all the wars mankind has engaged in during that time.

It is worth while to observe here that the rapid accumulation of surplus, which is at the bottom of all this trouble, came about through the division of labor in the factory system, which tremendously increased the productive power of the human race. The blessing of progress, which enriched the race and multiplied commerce by eight during the life of Queen Victoria, also conferred a devil's gift of over-production, which mocked the world as it made haste to get rich. If the world can now get rid of this devil's gift and hold fast to what it has gained by the factory system, an immense stride will have been taken in the progress of civilization.

Many futile efforts have been made to deal with the evil of over-production and it is clear that no existing institution is equal to the task. There is in existence no institution which has the information or the power necessary to pre-

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vent over-production. The division of labor is so wide and so complex that no one can discover a surplus until it has accumulated and its baneful effects are unavoidable. If the thing were known, there is no single agency or set of agencies sufficiently powerful to adjust production to consumption. Until we do make such an adjustment the frightful waste will go on and woe unspeakable will continue to follow in its wake.

Long observation has convinced the author of this book that machinery is in the making to perform the great service for which the whole business world is crying out.

During the life of this generation a great institution has been born out of the wrecks of competition. Dire necessity was the mother of this invention, which we call the trust. Humanity was ever in travail at the birth of its institutions and this one is no exception to the rule. We are not therefore to conclude that it is useless because it made trouble when it came into the world. This is the rocky road of progress. The stumbling blocks of the present are the stepping-stones to the future.

In the following chapters I undertake to show how the trust is a necessary step towards the federation of industry and the eventual establishment of an industrial clearing-house, which will approximately adjust production to consumption and save the world the immense loss and in-

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calculable suffering that is now caused by over-production.

Having reached this point we have gone far, but are still distant from the end of the great problem, and well might we pray, like Milton, for strength to reach the height of this great argument. For the certainty of the trust and the further prospect of its federation make the original question of its effect upon the mass of mankind one of tremendous importance. There never was an institution with immense possibilities for good, that did not carry with it immense capacity to damage or destroy.

Every great development in industry creates a new body of laws and complicates the task of government. Witness the factory acts, corporation laws and labor legislation, with their far-reaching effects upon the lives and pursuits of the people. Industry and government are indissolubly connected and they act and react on each other with every change in their structure.

Inevitably the consolidation and the federation of industries must affect the form and spirit of the government. If there be at any time an imperial industry in a democratic government, one or the other must change. They can not continue to shape the customs, thoughts, habits and lives of the people in different directions. Either the democratic influence of the governmental form and habit of thought will make for

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popular control of the consolidated industries, or the imperial influence of industry operating upon the minds of men, will bring government to the same condition.

But popular control of industry does not necessarily mean government ownership. On the contrary it seems more likely to take the form of a wide diffusion of shares among the people, and, perhaps, through co-operation or profit-sharing a larger participation of the employees in the earnings of industry.

There is also the interesting question whether the man behind the gun in the great industries will become a mere cog in the vast machinery, or will, by their very magnitude and complication, be lifted to a higher plane of usefulness, demanding more liberal compensation along with larger ability and more careful training.

These are some of the important phases of the great problem discussed in the following pages.

CHAPTER I

THE MISFIT OF INDUSTRY

Our wonderful productive methods waste enough to build homes for a million families a year.

IN order to learn what trusts are for, we must study the conditions which give rise to them. Corn was burned as fuel on the plains when people went hungry in cities. Coal miners were on a strike for living wages at a time when people in a neighboring city were shivering for lack of something to burn.

One morning in the winter of 1884, when the temperature was near zero, I saw in the railroad yards of Cincinnati, a delicate girl in a calico dress and cotton stockings, with only a thin shawl thrown over her shoulders, trying with blue and benumbed fingers to pull from the frozen mud a few scattered lumps of coal which had fallen from the cars. At the same time the miners of the Hocking Valley were out because the price of coal was so low that the operators could not pay them enough to keep families comfortable.

Bread and coal were drugs in the market while people went hungry and cold.

During the depression of that winter, following the panic of May, 1884, thousands of wage-

earners were idle. In many cases it was enforced idleness. In others they were idle because the product of their labor was so low in price that they were willing to starve awhile rather than take the poor wages their employers could pay.

These troubles were alleged to have resulted from over-production. How was there too much coal when people were cold? How was there too much corn when people were hungry? The answer to this question reveals the cause of depression in prices, stagnation in business, lock-outs, strikes, and panics, which in twenty years have cost this country enough to build homes for all the people.

It is, in a word, the misfit of industry, the ill-adjusted production, which makes too much of one thing and too little of another, so that the country, lacking some things, has of other things a surplus unabsorbed, which, like undigested food, throws the whole system into disorder, and if long unabsorbed causes distress. In other words, it is a case of economic indigestion that afflicts the body politic at such times.

If the task of every factory and every laborer could be so adjusted that the product approximately balanced the demand for it, the prime cause of this disorder would be removed.

At present this can not be done, because no one knows the demand accurately and no one

can control the supply. We only know there is a surplus when it is too late to avoid the consequences.

The effect of surplus is cumulative. A little surplus depresses the price of the whole product and a larger surplus causes depression in still greater proportion. Sometimes a ten per cent. surplus will cut down the price twenty per cent. When prices go down, work and wages are cut short. Purchasing power is diminished and then the market for other goods begins to feel the depression, which extends from one industry to another. They fall like ninepins, under the weight of each other. But the pendulum swings to and fro. After people have suffered and starved awhile, the surplus is painfully absorbed. Then prices go up, wages go up, and work is plentiful. We have good times once more, and everybody hails the era of prosperity.

But the said era has in it the seeds of death; for it induces the same activity which causes surplus and the distressing results that follow it.

This is so much a matter of common knowledge that the figures of speech we use unwittingly attest its truth. People speak of a "wave" of prosperity, meaning, of course, that there are troughs between the waves.

What shall we say then? Is industry the

cause of the trouble? Not at all, but the hap-hazard way in which it works. We work like demons, all in the dark, until some bad symptom of the times opens our eyes to the fact that we are working to bad purpose.

The division of labor has brought about a condition where no human being can tell in advance what the demand will be and how large a supply will meet it.

Consequently, there is no check on industry until the market is overstocked. Then it is too late to avoid the consequences.

If it could have been known in time that the product was larger than the demand, the excess of labor might have been turned in some other direction, so that production on the whole would not have been curtailed, but would have been better adjusted to the needs of mankind.

The recent experience of the silk industry in the United States will illustrate this point. Mr. S. H. Ditchett, Editor of the *Dry Goods Economist*, describes it as follows in an article published by the *New York Times* on January 5, 1902:

“The state of the silk industry is in marked contrast with that prevailing a year ago. For many months prior to the close of 1900 manufacturers confined their production chiefly to one class of fabric, thus making far more than the consumption could take care of. Had

they been prudent enough or possessed sufficient capital to hold this product until the demand grew, matters would have been better. But each manufacturer being in a hurry to sell, prices declined until the cost of production was reached and sometimes underpassed. Gradually, however, matters improved. Manufacturers began to diversify their product, and the prosperous condition of the country created a liberal call for silks. The demand caught up with the supply, and in the spring the very goods which a few months before had been a drug on the market were almost unobtainable."

Having apparently learned this lesson, the silk manufacturers forgot it very soon, and within the next two years the same folly was repeated.

Another illustration is the depression among cotton mills which prevailed for several years as the result of a tremendous increase of production in the Southern States. In 1890 the mills of these States spun and wove 547,000 bales of cotton. In 1900 they turned 1,621,000 bales into goods. The number of spindles, which had been 561,000 in 1880, was 6,532,000 in 1900. Most of these mills were engaged in making coarse goods, in which competition is most strenuous.

It is not surprising that the cotton goods market was in a sensitive condition in the sum-

mer of 1900, and when the Boxer outbreak in China cut off much of the Chinese demand for the product of Southern mills, depression ensued. This depression lasted several years. Its effect is already seen in the efforts of Southern mills to diversify products and make finer goods which will avoid the competition that bears most severely on the lower grades. But the important point here is that the excessive production of cheap cotton goods was not realized until a condition had been reached which made depression for several years a certainty.

One of the most familiar examples of misdirected productive energy is seen in the large crops of cotton. Within a few years the price has varied from five to seventeen cents as the result of increase or decrease in the world's supply. The 1903 crop of 10,045,000 bales brought more than the 1904 crop of 13,584,000 bales. In three years preceding the panic of 1893 the loss from low prices below the average of the preceding decade was \$200,000,000.

This immense shrinkage in the value of the leading export product of the United States curtailed the purchasing power of the farming classes in the South, and affected the demand for goods made in other sections and sold in the Cotton States.

Thus we see how ill-adjusted production in one part of the country affects others.

That the same effects spread from nation to nation is equally apparent. The depression in Germany cut off so many customers for American goods that our exports perceptibly diminished. Dullness in Manchester mills affects the American cotton-grower.

Every publicist warns agricultural communities against the single-crop system, because it leads rapidly to the production of more than the market will take at remunerative prices. The Irish potato, for this reason, is called Sir Walter Raleigh's fatal gift to the Emerald Isle. Likewise the all-cotton system, for a while the rule with Southern planters, has been described as the cause of their difficulties. They have been constantly urged to diversify their crops in order to prevent over-production of cotton, with its consequent ruinous depression of price.

The cotton planter's experience illustrates clearly the idea of ill-adjusted production, which I have called the misfit of industry.

Here is a case typical of thousands: Farmer Jones has been planting corn, wheat, and other necessary supplies, including the provender for horses and mules. His crop of cotton brings a cash surplus for the purchase of such articles as he can not produce. He has made a corn crop at a cost of about 40 cents per bushel and has no transportation charges to pay on it except the cost of hauling from field to crib.

Other food crops are produced with equal economy.

His cotton sells for ten cents and he concludes it will pay to put most of his land in cotton, and if necessary, buy corn.

To force his land he buys fertilizer and mules on credit. The high price of cotton induces a majority of Southern farmers to increase acreage at the same time and the result is an immense crop. The next fall the price of cotton falls to six cents or even five cents. All at once Farmer Jones wakes up to the fact that his cotton will barely bring enough to pay his fertilizer notes and the notes he gave for horses and mules. He is lucky if he does not have to give up the live stock.

In the meantime little corn has been planted; there is not enough to feed the people and the farm animals. The same is true of other food crops. That winter the farmer must buy corn and provisions to tide him over until he can make another crop. His heavy loss on cotton has wiped out his cash capital and he has to buy Western corn on credit, after it has been hauled a thousand miles and freight has been paid in proportion. It costs him \$1.00 a bushel and he must haul it from town. He has a similar experience with hay and pork.

There we have a clear case of ill-adjusted production by one individual. Any one can see

what is the cause of his trouble. This has been the experience of a million farmers at one time in the Cotton States. Indeed, it may almost be said to have been the experience of all, for the cotton craze has many times taken a very large majority of Southern farmers in its toils, and the low price affected all, the few who planted little as well as the many who planted much.

Exactly the same experience has come to wheat growers. It is the experience of all one-crop farmers sooner or later.

When the individual farmer is in distress, the whole agricultural population (the sum of of the distressed units) is in equal trouble. The aggregate loss and the total suffering produce a condition of depression which can be imagined better than described. Suffice it to say that in wide reaches of Southern territory the farming masses, in the year following such an experience, have been forced to do without meat and live on bread and syrup until they could make another crop.

When the agricultural class, constituting three-fourths of the population, is in this condition, trade languishes in the Cotton States. All industries which depend upon the farmer to purchase their goods must temporarily reduce sales or sell on long credit, either of which alterna-

tives will impair the financial strength and reduce the purchasing power of the people engaged in these dependent industries. In the years 1900 to 1903 the crops of cotton were not greater than the world's demand, prices were good, and food crops on the same farms were not neglected. Consequently Southern farmers have been more prosperous than ever before. But over-production in 1904 made a large crop sell for less than the small crop of 1903.

What is so clearly seen in the farmer's case is equally true of the manufacturer. Instances already mentioned show that it is true in the silk and cotton industries.

The difficulty in avoiding this ill-adjusted production is in the multiplicity of competing establishments, no one of which knows just what the other is doing.

An amusing instance of this occurs when the farmers meet in convention and solemnly resolve to plant less cotton. Then Farmer Jones, returning to his home, goes into executive session with himself and resolves that as the acreage is to be cut down, the crop will be small and the price high. Consequently, he decides that now is the time to plant cotton. The majority of the farmers, who can not go to the convention, read about it in the newspapers and come to the same conclusion. The result is that an im-

mense crop is planted. In 1905 the farmers were better organized and the cotton acreage was considerably reduced, but not to the extent the resolutions called for.

Human nature works in the same way among manufacturers, except that production is stimulated to even greater excesses by the more strenuous competition which causes the manufacturer to strain his resources in the effort to outdo competitors. Still other pressure moves him. He must keep his machinery in motion or it will deteriorate. He must also keep his labor together. To accomplish these objects he often runs at a loss.

Conditions are different where all the establishments of an industry are under common control. In the first place, the controlling parties know what all the mills are doing and know something about the extent of the demand. If certain grades and styles are overdone, they will quickly change to other fabrics or articles.

Attention is here called to the fact that the farmer, by growing too much cotton, was prevented from growing the quantity of breadstuffs he needed. He suffered from two effects of that policy, one effect being the depression in the price of cotton and the other a corresponding scarcity of food and an increase of its price. There we see the cause of the situation described at the beginning of this chapter.

PIG IRON

In 1890 the production of pig iron increased from 7,603,642 to 9,202,703 tons and for two years remained considerably above that of 1889. The price, which was \$18.40 in 1890, dropped to \$17.52 in 1891, \$15.75 in 1892, and \$14.52 in 1893. The average was about \$2.50 per ton below that of 1890 and the difference on the production of the United States in these years amounted in round numbers to \$60,000,000. To that extent the purchasing power of the iron makers was reduced.

COAL

The course of production and price in the bituminous coal industry is a striking illustration of the manner in which the unregulated energies of production outdo themselves and work their own hurt.

In 1880 and 1881 in good times the price of coal was \$3.75. In those two years the production rose from 33 million to 48 million tons. Then the price dropped to \$3.50. Production grew to 60 millions in 1883, 68 millions in 1884, and 73 millions in 1885. The price dropped and kept on dropping. By 1886 it was \$2.10. That year production dropped off 12½ per cent., and with the revival of business the price bounded back to \$3.45.

This sensational rise in price had the same effect on mine operators that ten cent cotton has on planters. They pushed production to the limit of their ability, and the next year, 1888, it went up to 79 millions. The price dropped from \$3.45 to \$2.60, where it remained for three years, held there by enormously increasing production, which eventually reduced it to \$2.00 in 1895 and \$1.60 in 1898. It did not get back to \$2.50 until 1900.

Between the price level of the prosperous year 1887 and the average prices of the period from 1888 to 1893, there was an average difference of 90 cents a ton, which on the average product amounted to about 500 million dollars.

The tendency to over-production is increased by progress and invention. Every new labor-saving machine turns into the labor market a large number of workers liberated from their former drudgery and ready to compete with other laborers in new occupations of a kindred nature, where their experience will be of most value.

This constantly augmented supply of labor, increasing the intensity of competition, is met by a constantly augmented supply of capital, ready to join it in new enterprises. As the rate of interest on old securities is constantly falling, there is every inducement to capital to seek new employment.

The new enterprise, so set on foot by labor and capital released from other industries, is better equipped with up-to-date machinery than those which were built in preceding years, and other things being equal, has an advantage in economy of production. Thus the tendency is to make new competition constantly more formidable to established enterprises. It becomes necessary for the manufacturer to charge off annually, in addition to the usual percentage for wear and tear of machinery and equipment, a percentage to meet the expense of the inevitable displacement of old machines with new ones of a better type, often before the machine has been much worn by use. The old loom can not compete with the automatic, self-tending loom, which reduces the labor cost so materially.

So there is strong temptation to bring into existence more factories than the consumption will support. The new may do well, while the old run on at a loss rather than abandon the investment. This increases surplus and demoralizes the market.

The ill-adjusted production by which so much of the world's energy has been wasted is the inevitable result of the division of labor.

The difference between the blind energy of numerous and widely separated competitors and the same units organized and combined for con-

certed action is the difference between a mob and an army.

The effectiveness and economy of energy in the army is no greater than it is in the army of industry, which combines in a few compact organizations all the establishments of that line. For example, we have the army of iron and steel producers, composed of several great combinations which correspond to army corps.

The early history of consolidated industries is not altogether peaceful. Their path is not strewn with roses. Until some kind of federation takes place, destructive warfare is always a possibility for them.

In proportion as the conflict of armies is more deadly and destructive than the incoherent outbreak of mobs, so the conflict of industrial combinations is more destructive than ordinary competition. When the conflicts become international, they will be embittered by national antipathies and sustained by governmental policy.

The contemplation of industrial warfare under these conditions will tend to make less frequent such destructive conflicts. But when they do come the waste of wealth will be frightful, and will by its consequent suffering provoke such a protest from the toilers of the earth that eventually a truce will be declared.

It is to that ultimate stage of industrial de-

velopment that we must look for the best results of consolidation, for when industrial warfare in nations has been succeeded by worse conflicts between them, and these in turn have given place to international co-operation, with a free and fair exchange of the best fruits of earth and the best products of toil, we shall have reached an era in which the murder of men by wholesale will be no longer tolerated and the unspeakable horrors of war will give place to generous emulation in the helpful works of industry.

At present this great end seems very far in the future. The great combinations are at present, as a whole, unfit for the great office their successors are destined to perform for the human race. Overcapitalization, fraud, mismanagement, extortion, and oppression are so common among them that they do not enjoy or deserve the confidence of the consumer or the investing public. But time will cure these evils, and when the new machinery of production has been perfected by experience and adversity, the world will use it well—as well as it has used other machinery in the past.

CHAPTER II

THE LESSON OF THE CROPS

Let us pay close attention where we find nature teaching by example.

IN this spirit let us look at two of the greatest facts in the world, corn and cotton.

Very frequently it happens, as in the cotton industry, that large and small crops bring approximately the same, and the extra outlay of energy and capital in making the large crop is entirely wasted.

It was a common saying in the South that the world had just so much to pay for American cotton and the farmer got the same whether he produced six, seven, or nine million bales. This, of course, is not an exact truth, for the consumption and the purchasing power of the world are constantly changing, and the price itself, to some extent affects the possible consumption. Nevertheless it is obvious that when the crop of 1904, being about a third greater than the crop of 1903, brought actually a smaller aggregate sum, the world did not need the quantity that was produced in 1904 and a large proportion of the labor and capital expended on its production was wasted. The same is true of the crop of 1894.

First we will study the evidence of corn:

CORN CROPS OF 25 YEARS.

Year	Crops in Millions of Bushels	Value in Millions of Dollars
1880	1,717	679
1881	1,194	759
1882	1,617	783
1883	1,551	658
1884	1,795	640
1885	1,936	635
1886	1,665	610
1887	1,456	646
1888	1,987	677
1889	2,112	597
1890	1,489	754
1891	2,060	836
1892	1,628	642
1893	1,619	591
1894	1,212	554
1895	2,151	544
1896	2,283	491
1897	1,902	501
1898	1,924	552
1899	2,078	629
1900	2,105	751
1901	1,522	921
1902	2,523	1,017
1903	2,244	952
1904	2,467	1,087

In the table on the foregoing page black type represents years of depression and light face type stands for periods of prosperity. By this arrangement we get a clear contrast of results to the farmer in good and bad years. In the twenty-five years there were two depressions and three eras of prosperity.

The average annual return to the farmer for the corn crop during the years of prosperity was 740 millions in the first period, 701 in the second, and 893 in the third.

Between these three periods came two series of lean years when the purchasing power of the country and the world was at a low stage. In those hard times the annual return to the farmer for his corn averaged 638 millions in the first and 539 millions in the last depression.

The last twenty-two years of the table were half and half, eleven good and eleven bad. In the eleven fat years the corn crop brought 8,857 millions and in the eleven lean years, 6,422 millions, with a yield only 12 per cent. less.

The difference in the return to the farmers on this one crop, between the good and bad years of two decades was about two and a half billions, or enough to build homes for twelve million people.

It is not a mere coincidence that the bad years came in series. They constituted periods of depression, and the crop did not bring as

much as usual, because the people had less to buy with.

The second fact brought out is that when the purchasing power of the country or the world remains nearly the same, the total crop brings not far from the same sum, whether the crop be large or small.

If the whole product is half a billion bushels more than the world needs, the farmer will get no more by producing this surplus than he would without it. He has lost the labor and expense of making the surplus.

The same influences are seen in the cotton crop:

COTTON CROPS OF 14 YEARS.

Year	Crops in Millions of Bales	Value in Millions of Dollars
1891	9.03	311
1892	6.70	267
1893	7.54	250
1894	9.47	259
1895	7.16	293
1896	8.53	291
1897	10.89	319
1898	11.18	305
1899	9.14	335
1900	10.40	511
1901	10.66	418
1902	10.72	458
1903	10.50	617
1904	13.55	600

Here we have nine bad years, followed by five good years, and a glance at the table shows that the farmers got almost exactly the same for five crops, amounting to 56 million bales, that they received for the nine crops, aggregating 80 million bales, which they sold in the nine years of the hard times.

In this crop as in the case of corn, there were boom years, when the purchasing power of the world was great and it took a large crop at a good price. In 1890, for instance, a record-breaking crop brought more money than had ever been received for cotton. Then came the lean years, from 1891 to 1898, when purchasing power was low and the country had fifty or a hundred millions less to spend for this product.

It gave less for eleven million bales than it had given for something under nine millions.

But the depression did not last always. The world once more became prosperous and by 1903 it gave 617 millions for a crop no larger than it bought for half that sum in 1898.

It is true mills and spindles increased, but what built the mills but the increase of purchasing power?

In cotton as in corn, during periods of about the same purchasing power, the crop brings not far from the same sum, whether it be large or small. For instance, the crop of 1903 brought 617 millions and the big crop of 1904, although

it was 35 per cent. larger, brought not quite as much. If it costs \$30 a bale to make cotton, the farmer spent to produce the extra three-and-a-half million bales of the last crop about 105 millions. If he had put this labor and expense into other crops he would have at least 105 millions more.

Here some one will ask whether the ten-million-bale crop of 1903 was not too small when the world's requirements were estimated at eleven millions. This is true and doubtless the curtailment of production can go too far, but we will deal with that question in its proper place. At present we are showing how production affects price and how the producer loses his labor and his money when he produces more than the world wants.

CHAPTER III

ORIGIN OF PANICS

There are years like nightmares.

COMMISSIONS composed of the ablest men in several countries have investigated the causes of industrial depression, and without exception they have pointed to over-production.

Some of them found other causes, but most of these are secondary, and are not sufficient in themselves to make so much trouble for so long a time. But with over-production upsetting business, the other causes operate more easily.

While a very large crop or output sometimes brings more than a smaller one, even at a low price, it is still true that a reduction of the price approximately measures the amount by which purchasing power is reduced, for if the labor and capital were not in this particular industry they would be in others to swell the purchasing power there. For this reason the fairest comparison is in the aggregate returns of all productive industries. That gives us the total rewards of labor and capital in successive years. If the average level of prices on leading commodities one year is 100 with a total product of fifteen billions value, and the next year the price level is 90, with approximately the same

forces employed, we know that the purchasing power of the people engaged in those industries is reduced at least ten per cent.; that is to say, at least one-and-a-half billions.

But purchasing power is likely, indeed certain, to be reduced in a greater ratio. For if the price of an article is 100 and the cost of production 80, the profit is 20; but if the price is 90 and the cost 80, the profit is 10. When price drops to 80 the profit is wiped out, and if the capitalist spends anything, it comes out of the accumulation of previous years. Thus, as the price level goes down, the income of the producing capitalist is reduced in geometrical ratio.

When it is remembered that the capital invested in productive industry is largely in bonds, with fixed charges, the wiping out of profits is seen to be more destructive still, for default of interest is followed by foreclosures which destroy immense volumes of property.

For similar reasons the purchasing power of the laboring class is reduced in greater ratio than the total shrinkage in prices would indicate, for prices are made and sales are made after factories are closed. An average fall of ten per cent. in the price level wipes out a very large part of the profits of industry, bankrupts many concerns, closes many factories, and throws thousands of men out of employment, because in a large proportion of industries it

takes off all the profit; but a further fall to the price level of 80 does immensely more harm, for the second ten units off the price represent, in most cases, the last vestige of profit and a part of the cost of production. Then industries go down like card houses and the ranks of the unemployed are swelled to the million mark.

If it appear to any one that a reduction in the price of a commodity of general use may be an advantage to the consumer, even though a loss to the producer, and that the loss of purchasing power to one is gained by the other, let him remember that it is impossible to weaken or impoverish one class without weakening and impoverishing society as a whole. Individuals may gain by the loss of others, but society as a whole loses.

In order to see the situation with perfect clearness, let us remember that price is only a symptom or index with which we detect or measure the reality, and that reality is the relative supply or deficiency of the commodity. If society as a whole has food enough, clothing enough, comfortable houses, and fuel enough, with the addition of as many comforts, educational facilities, recreations and works of art, as its surplus labor can produce during reasonable hours, society has secured the best results from its productive machinery; but if it has so much corn that the grower uses it for fuel, so much coal

that miners go hungry, and so much cotton that the farmer's family must go without meat, it is evident that the productive machinery is out of order and society as a whole is a great sufferer. The test of this logic is in the event, and we know that when the price index runs low the times are out of joint and the country is depressed, men go idle, and children cry for bread.

The effect spreads from one industry to another until depression is general and business stagnates. At this point the destructive effect of over-production on purchasing power is followed by a psychological condition which adds to the general distress. A nervous dread of impending calamity turns depression into panic and the business world loses its head for the time. When that stage is reached suffering is indescribable and calculation falters in measuring trouble. There are years like nightmares when society, "sighing through all its works gives signs of woe."

Dun's index figures indicate that on the bulk of commodities produced in this country there was an average decline of seven per cent. for three years, 1890, 1891 and 1892, below the level of 1888. This percentage on total products amounting at normal prices to about forty-five billions in that period, means a reduction of more than three billions.

It is a striking fact that the losses from

shrinkage in prices are less before a panic than after it. The index figures which show a shrinkage of three billions on the products of three years preceding the panic of 1893 show five times as great a shrinkage in the long depression which intervened before the next period of prosperity.

The evil grows slowly at first, but gradually extends from one industry to another, accelerating its progress, and finally culminates in a general depression.

Panics usually occur when the depressing effect of industrial stagnation is supplemented by some other disturbing cause which complicates the trouble, and as it were, "sets up inflammation" in the public mind.

Fluctuating prices are themselves an incentive to speculation and overtrading. Prosperous times also relax credits and loose credits are a source of danger when the critical moment comes. Added to these causes in producing the panic of 1893 was the monetary trouble following the coinage act of 1890.

Much has been said in recent years about lack of confidence as the cause of depressions. This psychological trouble was attributed to the unsoundness of our monetary system, or to the free-silver agitation, but this was not the only cause.

No one seems to have recognized the fact that

falling prices are the most potent enemies of confidence. Every man runs from a falling market. Everybody wants to stand from under. No one is in a hurry to buy until prices harden and show a tendency to rise.

When to this are added other causes of uneasiness, such as unsound finance, crop failure, war, or strikes on a colossal scale, the evil is intensified. Then the sick man suffers from a complication of disorders and remedies are not easy to prescribe.

CHAPTER IV

THE RISE AND FALL OF PRICES

Over-production is a two-edged sword which attacks prices from two sides, reducing demand while it increases supply.

IN the previous chapter the loss to the producers of this country during the long depression preceding and following the panic of 1893 was measured roughly by the average fall of prices during that period. The price level was taken as the best available barometer of the general prosperity or the general depression.

There are those who contend that the rise and fall in the general level of prices is caused by expansion or contraction of the currency. They say that when the volume of money in the country is increased, money becomes cheap and the prices of commodities go up in the same proportion.

It is clear that cheap money makes high prices, but the truth of this statement as a general proposition may mislead us very far if we take inflation and contraction to be the only factors in price raising or lowering. The only safe method of procedure is to take a given period and see if the rule applies.

In 1891 the volume of money circulating in this country was 1,497 millions. It gradually

increased with population, and in 1897 was 1,640 millions. The money supply, in proportion to the number of people and the business they did was about the same in these two years. Yet the average level of prices, as shown by Dun's index, which is based on the prices of several hundred staple articles taken in proportion to consumption, fell from .98 to .72. Without any relative expansion or contraction of the currency, there was an average fall of 26 per cent. in the general level of prices. Evidently inflation or contraction will not account for this.

The two main causes were the cumulative effect of over-production for several years preceding the panic, and the contraction of credit due to the belief that the monetary situation was made unsafe by the coinage of silver and the loss of gold by the Treasury.

Taking another period, from July, 1897, to January, 1902, the price level, according to Dun's index, rose from .72 to 101, an advance of forty per cent. During the same period the volume of the currency increased from 1,640 millions to 2,249 millions. The inflationists jump to the conclusion that this increase of money accounts for the rise in the price level, and the large increase in the gold product has given many people a vague idea of cheap money and high prices.

The fact is that with all this increase in the stock of money, we have relatively less in proportion to business done. We have more dollars than ever before, but we work them harder. Manufactures, trade and all kinds of industry have increased at a tremendous rate. While the volume of money increased 37 per cent. in those five years, the volume of business grew 113 per cent. The ratio of money to clearings in 1902 was one to fifty-one, where it had been one to thirty-three in 1897. Where a dollar turned over thirty-three times then, it had to turn over fifty-one times in 1902 in order to do the business of the country.

Under these circumstances a forty per cent. advance in the price level can not be accounted for by expansion of the currency.

That idea is untenable in the face of the alternate rise and fall of prices since 1902, while the volume of money was steadily and rapidly increasing. For example, there was a decline of six per cent. in four months from March 1 to July 1, 1904, while the money in circulation increased 100 millions. Inflation could not possibly account for that.

This incident calls our attention to the influence of seasons on the level of prices. Dairy and garden products, which constitute about one-seventh of the value covered by the price index, are cheap in summer time. The six per cent.

fall in the price index between March 1 and July 1, 1904, is largely accounted for by the sharp decline in this group of products. They advanced by autumn and on December 1, 1904, the price level again stood at 100. So much for the influence of seasons on the level of prices.

Even these small changes due to seasonal influences are the result of increase or decrease in the supply or the demand. Dairy and garden products are cheaper in summer because the supply increases with the abundance of grass and food. We have our summer gardens which disappear in winter. The cow gives more milk at less expense in the season of abundant grasses and the hens lay better in warm weather than in winter.

Close examination will show that the same cause runs through the whole list. The price level is based on several hundred articles in general use. If the price of one goes down, the average is affected very little. If a dozen or so are depressed, the effect on the average is perceptible, and if a hundred or more of the prices are sharply reduced, the result is a very low average. This very low average is the result of an oversupply in many articles. This oversupply may be relative, and may be due to low consumption, because of poverty or lack of prosperity in the consumers. Thus we see the funda-

mental cause of a low price level is over-production, extending to a considerable proportion of the staple products, and bringing down others by cutting off consumption. This cut-off of consumption comes as prices go down. The man who receives little can spend little. Smith, with \$1,000 income in a bad year, is only half the consumer he was with \$2,000 income in a good year. Thus we see over-production is a two-edged sword; it attacks the price from two sides, reducing demand while it increases supply.

Professor John R. Commons, in his testimony before the United States Industrial Commission, exhibited a chart, giving the range of prices and the number of unemployed persons in successive years. He showed conclusively that the years of low prices are the years in which the evil of unemployment is at its worst.

CHAPTER V

THE BOOM AND SLUMP OF STOCKS

The rise or fall of anything that is constantly used as bank collateral is a matter of vital importance to the business world.

The extent of the danger from this source is indicated by the fact that in a time of stress a few bankers in New York formed a pool of fifty million dollars to support the stock market.

OVER-PRODUCTION is an immense factor in finance, and is the cause which oftenest turns industrial depression into panic.

The periodic rise and fall in the level of prices for staple commodities has its counterpart in the ground-swell and the slump of prices in the stock market, but the fluctuations there are wider and more disastrous because of conditions peculiar to stocks.

The rise and fall of stocks is greater than the periodic cadence in the prices of commodities because stocks, in addition to being affected by supply and demand or the general purchasing power of the country, which affect all values, are also sensible to other influences arising from the nature of corporate property. A bushel of wheat remains a bushel of wheat, even in the hands of a receiver; likewise a bale of cotton. Not so a corporation. The passing of a divi-

dend, decreased earnings, quarrels among stockholders, allegations of fraud or mismanagement, and applications for receivers have tremendous effect upon the market value of stock, even though the physical condition of the company's plant remains unimpaired. Other and opposite influences operate just as strongly to bull the stock.

When in the stock market the fundamental forces of supply and demand, prosperity and depression, are reinforced by the influences peculiar to corporate property, it is not surprising that the alternate boom and slump of stock very far exceeds the periodic rise and fall of the price level of commodities. The greatest fall in the average price of commodities in recent years was 26 per cent. between January 1, 1891 and July 1, 1897. This is small in comparison to the ground swell of the stock market in 1901 and the slump in 1903. Standard railway stocks went down thirty to forty per cent. and the fall of industrials was nearly twice as great. The decline of the common and preferred stocks of the United States Steel corporation amounted to 470 millions, or about 60 per cent. of their market value in 1901. During this period the variation in the commodity price level never exceeded six per cent.

The main causes of this depression in the stock market were the great volume of industrial

stocks thrown on the market, the suspicious character of very much of this new supply of securities, and the forced liquidation on an immense scale among speculators. It was the culmination of an era of combination and over-capitalization and billions of new stocks were offered for sale. It was clear that the combined properties had been tremendously over-capitalized, and it was not long before the allegations of fraud and the application for a receiver for the ship-building trust led to an exposure of financial methods which were alarming to the investor. This incident put the whole list of industrials under suspicion because some of the men concerned in the ship-building trust were active in promoting many other new combinations. Thus the market was glutted with stocks of doubtful value.

The immense expansion of credit and over-trading in stocks alarmed conservative men and a sudden check on business was applied by the discovery of over-production in iron and steel. But the over-production of industry was not as great as the over-supply of stocks.

Over-production has far-reaching consequences in the manufacture of securities, as well as in the products of labor. To realize this we have only to observe the operations of the banks.

A large part of the total volume of business is

made up of sales of stocks and bonds. A great deal of money or credit is needed for this purpose and the facilities of banks are freely used by traders in securities. At certain times this demand for money is so great that the important functions of the banks in supplying funds to move the crops or meeting the demands of manufacturers and merchants are seriously interfered with. This, however, is not the most serious effect of the stock market upon business.

The banks accept stocks as collateral for loans, and to protect themselves against loss by shrinkage of prices, they have devised a system for daily revision of the valuations put upon the securities so held. As some margin above the market price of collateral is required, a close watch on quotations will enable the bank to protect itself in ordinary times by calling on the borrower to make good the depreciation of his collateral. But there are times out of the ordinary when the fluctuation of stocks is so rapid that collateral shrinks below the size of the loan before it can be sold or replaced, and if the borrower is hard hit, as he usually is, the bank may have to lose the difference. Every few years we hear of the failure of a bank from this cause.

In times of stress a serious change takes place in the attitude of banks carrying stock loans in large amounts. They are forced in self-defense

to bolster up the stock market. During the stock panic of May, 1901, it was published by the associated press that certain New York banking houses formed on short notice a pool of fifty million dollars to support the market. This statement was never publicly questioned and is doubtless correct. That being true, it would be desirable to know whose money constituted the sum which was to be so risked.

Some of our greatest banks at times put themselves in a position where they are almost compelled to bet against the market. This turns into a speculative concern the very institution upon which the public leans as a pillar of safety. It might be said that but for such pools in dangerous times, the market would go to pieces and the slump of stocks would carry everything down with it. The cure is more dangerous than the disease. If the banks bet fifty millions on the market and it went against them the disaster would be far worse than it would have been if they had kept hands off.

The banks accept stock as collateral because it is a kind of security upon which they can quickly realize, and if it has solid value that will resist the pressure of the market, there is no reason why it should not be so used. But we have recently been through a period when some of our strongest banks turned promoter and headed underwriting syndicates which put upon

the market immense quantities of watered stock. When the reaction came there was a period of forced liquidation and the slump in the prices of industrial stocks was so great that their total market value contracted about two billions.

In the market at the same time were the more or less solid railroad stocks. The stringency caused by the collapse of the boom in industrial stocks operated like hydraulic pressure on railway stocks, which had more solidity and resistance, but nevertheless suffered depreciation which on their immense volume amounted to something like a billion dollars.

On September 9, 1903, the national banks of the United States had 3,481 millions of loans, of which 1,372 millions were secured by stocks and bonds. In other words, forty per cent. of the basis of credit was exclusively composed of these securities.

Of the other sixty per cent. loaned on the notes of individuals, firms and corporations, a large part rested on resources composed of corporation shares. Including this item, at least half the basis of credit consisted of stocks and bonds.

Within a short time there was a shrinkage of one-third or more in the value of this base of credit, and again later it expanded to nearly its former proportions.

It is insisted that the money which we use as a medium of exchange shall have a stable value, but little attention seems to have been paid to the fact that bank credit, which is the real medium of exchange in nine cases out of ten, has a basis of value so unstable that it has shrunk and expanded more than a third in four years.

What constitutes the volume of stocks on the market? It is made up partly of solid material, but very largely of watered shares that may be compared to a gigantic sponge, alternately expanding and contracting as the market goes up or down.

This great sponge is part of the foundation of our system of credit. When it expands, loans expand; when it contracts, loans are called and money is stringent. We have then, instead of flexible currency, a flexible credit founded on a flexible base, largely made of sponge.

We know what happened to the man whose house was founded on a rock, and the poor fool whose house was founded on sand. Sponge is still worse than sand.

The development of industry requires the formation of corporations and it is right and necessary that incorporated business have banking facilities as far as it is entitled to credit, but the conditions just described are a menace to all the substantial interests of this country.

There are many demands for reform in corporations, but the most urgent are measures to prevent banks and insurance companies from using the funds of depositors and policyholders to float schemes for the profit of syndicates composed of the men who control these institutions of trust.

Their flotation of watered stock not only makes inevitable the loss of billions of money to the investing public by the alternate inflation and expansion of the market, but at the same time puts the whole business world in peril through the sapping of the foundation of credit.

The very banks which back the promoters of watered-stock companies are in a short time compelled to call loans and force the liquidation that sends prices down. The very machinery upon which credit depends is used to destroy it. No doubt the calling of loans and the forcing of liquidation furnish an heroic but indispensable remedy for a bad situation, but the banks which help to create the situation deserve the severest condemnation.

These remarks are, of course, not intended to apply to the great majority of bankers who do a conservative, legitimate business and have not suffered themselves to be used by promoters or stock-jobbers. They, more than any other class, will appreciate the truth and the importance of what has been said on this subject. The trouble

is mainly in Wall Street and a few other centers of speculation.

It is true there is legitimate work for the promoter. With all his faults, he built our railways and many of the great industrial plants, but society has a right to prevent him from injecting into the body politic a poison that will bring on fever and delirium as surely as the bite of an infected mosquito brings on the yellow plague.

Heretofore the promotion of stock companies, particularly mergers, has been a lucrative business and some of the greatest banking houses in this country have engaged in it on an immense scale. This gave the business a prestige and respectability which it never had before. Men of no reputation thought that if Mr. J. P. Morgan could promote a billion dollar company based on property worth half that sum, they could afford to promote smaller companies that were over-capitalized in like proportion.

No doubt Mr. Morgan thought it was right to over-capitalize if the preferred stock approximately represented the value of the property before combination and the public was given to understand that the value of common stock rested solely on the prospective appreciation of the property through increased economy and larger earnings resulting from consolidation.

This seems plausible and most big corpora-

tions are organized on that basis. The promoters argue that property is valuable in proportion to its earning power, and the price may be either above or below the par value of the stock, according to the success of the enterprise.

The answer is that the vital matter, so far as the investor and the public are concerned, is stability. The large nominal capital is not so much the trouble; it is the instability of the material so created. The harm is done by the alternate expansion and contraction of stocks. This is worst in companies organized on a speculative basis. Investment stocks do not tempt the big gambler with so heavy a stake, and being more solid, offer greater resistance to his onslaught. Consequently it is the immense mass of speculative stocks that constitutes the danger to the business world.

The influence of a great name for good or evil is immense and the whole country lost its head when a banker whose name had been the synonym for conservatism and stability took the lead in the wildest carnival of promotion and inflation that the country had ever seen. It is to the everlasting credit of Russell Sage that he saw through all that folly and had the moral courage to raise his voice in warning. Even then there were not lacking men of great prestige who railed at Mr. Sage as an old foggy, but the logic of events speedily justified all he had

said. The slump in the stock of a single corporation was nearly half a billion within three years, although it was underwritten, financed and controlled by the most powerful houses in New York.

CHAPTER VI

IMPERATIVE NEED OF ECONOMY IN PRODUCTION

The world's comfort demands the work of all hands without war or waste.

IT may be safely assumed that the world's comfort demands the work of all hands without war or waste. It is still true that for the vast majority, life is a struggle for existence with no higher stake than a bare living. For them there is little opportunity for the development of body or mind beyond that afforded by the routine of their narrow lives. Even if we leave out all such considerations, the mere bodily comfort of the race demands all it produces, and if everybody is to have enough, economy must be practiced more consistently than it is now.

But what of the future? Will the progress of science, invention and the arts enable every one to produce what he needs with a part of his day's work?

Confining our calculations to the Continental United States, if we leave immigration out of the account, and apply the rate of increase recorded by densely populated Germany during the last decade of the nineteenth century, which was sixteen per cent., we shall have a popula-

tion of five hundred millions in this country in 112 years. If we apply the rate of increase in the United States during the last decade, we shall have the half-billion at the end of a century.

On two million square miles of arable land this will give us a density of 250 per mile, which is about the density of Germany. No civilized country with a population so thick as that has been able to feed its people with the products of its own soil. China is the only country with so dense a population which manages to subsist on its own products and its people live in a manner that is not pleasant to contemplate.

The productive methods of our own country would have to be vastly improved in order to sustain so great a population. Theoretically, scientific agriculture has done a great deal to increase the productiveness of the soil, but the actual progress made by this generation of farmers in the average yield per acre of such staples as corn, wheat and cotton is very small. The Department of Agriculture publishes in one of its year books, a table showing the average yield of these articles for the period from 1865 to 1899 and the percentages of increase are surprisingly small, especially in corn and wheat.

Of the arable lands in this country, about two-thirds are under cultivation and only one-third

remains unproductive. By present methods we feed our people with the products of this land and have one-fifth of our food crops for export. By using the idle third of the arable land and exporting none of the food crops, we would produce, at the same rate, enough food for 144 million people. At the end of a century we may expect 500 millions. Necessarily we must produce more than three times as much per acre in order to feed the people as well as they are fed now, and grow the same proportion of other crops for other purposes.

But the wants of society increase all the time. The denser the population the more social machinery is required to keep it comfortable and orderly.

The world was living without railroads eighty years ago and its grain was cultivated with old-fashioned plows, reaped with the sickle and threshed with the flail.

Now it would be impossible to get enough men and teams on the roads to move the vast traffic that goes by rail, and if it were possible, the work would require all the able-bodied men and more horses or mules than the country could feed, leaving neither man nor beast to till the soil or run the factories.

David A. Wells is authority for the statement that if the corn-sheller were abolished, it would take the entire agricultural population of the

principal Corn States 110 days in the year to shell the corn they produce.

It is manifestly impossible for us to maintain our twentieth-century civilization on the methods of production that were in vogue eighty years ago and it will be equally impossible for the grandchildren of this generation to exist with equal comfort in their time unless their methods are vastly better than ours.

Either the methods of production will greatly improve, or population will stop growing or the world, especially the civilized part of it, will suffer as never before.

It is not pleasant to contemplate the condition of society when population becomes stationary. There are many theories as to what would happen, but the actual condition in those countries where this point has been reached is not reassuring.

It is hardly more satisfactory to look forward to a time when the civilized world will be reduced to the meager allowance that the Chinaman enjoys.

Disagreeable as both alternatives are, nothing is more certain than that one or the other of them will confront our descendants if vast improvement has not been made in the methods of production and distribution by that time. If our country, now the world's best granary, shall have to buy food a hundred years hence, it will

have to produce the commodities with which to buy, if indeed there shall be any other granary open to us in that period, when the demands of Europe for food will have been vastly increased and its hungry billions will be ransacking the earth for a supply. Already they have pre-empted Africa. Whether we buy or grow our food, it will be production of one kind or another that will feed us.

It is perhaps pertinent to ask why we should bother our heads about the future. Certainly we have evil enough for our day, but a glance ahead will show the direction in which we are tending and will make plain some of the changes which industry is undergoing in unconscious anticipation of the future.

To this end the world is working in all the vast and wonderful mechanism that is growing up in industry. Those who make combinations do so for self-preservation or profit, or some other advantage, not caring particularly for the remote future, but when they have made this machinery others who come after them carry it a step further, and so the world's progress is made, step by step, each generation unconsciously preparing for the next machinery or capital or a fund of knowledge, which in that later time will be absolutely necessary to existence.

It is not difficult to see the course of improvement in agriculture. In this great industry

science is far ahead of its practical application. The tiller of the soil has hardly scratched the surface of its possibilities and the way to improvement is clear. It is different in manufacturing and transportation. Here so much has been done that it is hard to see what course further development will take.

Invention will no doubt continue to improve apparatus but for the greatest results we must look to a new and unworked field.

Indications of the direction in which this new field lies will be found in the characteristic tendency of all business toward the utilization of waste. During the past quarter of a century by-products have been studied and utilized as never before. Every great corporation that has become a landmark in its particular industry, boasts of important economies effected in the production of some useful article. By-products which were overlooked thirty years ago constitute hundreds of millions of the output of the factories.

Now a new and larger form of economy is demanded, which will save the enormous waste, not of one product, or group of products, merely, but of all products which are created to be thrown away or sold at sacrifices so great that the producer is crippled and his purchasing power reduced by the loss of time spent on unprofitable industry.

Great as the saving through the utilization of by-products has been, it is small in comparison with the saving that will be effected in all lines of industry when production is so regulated that it will approximately meet consumption at prices which will afford a living wage and a fair profit.

CHAPTER VII

REGULATION OF PRODUCTION

When we learn to regulate production, labor will have a living wage and capital will have a fair profit.

WE have seen that the division of labor set thousands of people to work on the same task and no considerable part of them know what the rest are doing. They all work in the dark as regards supply and demand. They only know there is a surplus when there is a glut in the market and prices begin to go down. Then it is too late to prevent the consequences.

Now observe the effects of surplus. When the world's supply of cotton is a million bales above the estimated requirements, the price goes down. When the surplus is two million bales, the fall in price is more than twice the fall for one million.

Observe also that the depression does not affect the surplus merely. It affects the price of all cotton on the market. The whole crop, including the surplus, brings less than a normal crop.

The consequences of this disparity between the ratio of surplus and the ratio of price are very serious, especially since surplus affects all producers, the prudent as well as the imprudent.

Attempts are frequently made by cotton planters to regulate production, and in the year 1899 they came nearer succeeding than they ever did before. Influential farmers used their utmost efforts to keep the others from making a surplus crop, and when the crop was maturing, they strenuously exerted themselves to prevent the hasty marketing of cotton. The banks lent their assistance and cotton was held back on the farm to a considerable extent. The result was that the price went up to eleven cents per pound for a short time and much of the crop was sold for ten. In 1905 the cotton planters organized with cotton at $6\frac{1}{2}$ to $7\frac{1}{2}$ cents and curtailed production. As a result the price went up to ten cents before the crop was all marketed.

This is an example of regulation by co-operation. The cotton mills have given us similar examples. Time and time again they have agreed to limit production in order to prevent a surplus. The same has been done with lumber, iron, nails, stoves, and a variety of other commodities. The cotton planters have a much harder task because they have to control millions of producers in order to regulate the supply, but their success in this difficult field shows what organization will do to solve this great problem. The farmers have one great advantage in the comprehensive statistics which are collected by governmental and other agencies

to show the acreage, condition and yield of the crop.

In adjusting production to consumption, the primitive family, crude as its methods were, had one great advantage. The demand was known and the supply could be controlled. The patriarch knew how many sheep and oxen and how many measures of grain the family required. He also knew how many skins and how much wool would be needed for clothing and what materials for sandals. The producers were entirely under his control and he could apportion their tasks so as to meet the demand for the necessities of life. If the man making sandals got through his task first, he could be sent to help his brother finish dressing skins, or assist in herding cattle or cultivating grain. If, with our improved methods, we could adjust supply to consumption as closely as the patriarch did we would save an immense amount of labor and loss.

The modern family of industry is widely scattered. Being separated, it does not co-operate, except in a blind, unconscious way. A hundred little factories can not co-operate easily, but when a whole industry is organized in a few combinations, the possibility of co-operation is increased a hundredfold.

It seemed a hopeless task to control the acreage of the cotton crop when the planters were

several millions strong, and their weakness for disregarding resolutions had come to be regarded as a fixed habit which nothing but a change in human nature could break up. In addition to these difficulties they were unorganized.

But the farmers had the determination born of desperation, and they organized the Southern Cotton Association which controlled the acreage very largely in 1905 and restored the price.

Another example of co-operation favored by organization is worth mentioning here. Railroad rate wars are fewer and less disastrous than they were a decade ago, in spite of the fact that the law prohibits even an agreement to maintain rates. It is because the railways have been consolidated into a few systems, and through several of these there runs a thread of common ownership. The same method applies as readily in manufacturing.

When a few concerns control the production of an article or a series of articles, it is easy to ascertain the total capacity and the probable production. It is also easy to find approximately what the requirements of the market will be. Half a dozen concerns, when they are in the humor to co-operate, can add up last year's sales and find a safe basis of calculation for this year's demand, which will be the same, plus the natural increase, increased or diminished by new factors

affecting the purchasing power or the wants of society. These factors can be estimated pretty well by experienced judges, and when applied to last year's sales, will give a fair estimate of this year's demand.

When this point has been reached, the next step is to adjust production to consumption, supply to demand. This has been done in a number of cases, and the tendency is to extend the process until it includes all the important industries.

The public views this tendency with alarm. The natural supposition is that a curtailment or even a limitation of production means extortion through advancing prices. In some cases it does, but not in all. In periods of depression prices go so low that they do not yield a living wage and a fair return to capital. There are three parties to the price question, the capitalist, the wage-earner, and the consumer, and each must be considered in any fair adjustment. When prices are so low that they do not yield a living wage and a fair return to capital, they ought to be raised. If the only way to raise prices to a living scale is to regulate production, it ought to be regulated. There is no wrong in regulation itself. The right or wrong depends on the fairness or unfairness with which the task is done.

Those who look with abhorrence on the con-

trol of production by the producers should stop and consider what happens now. Another kind of control is exercised. Production is checked and effectually checked by the surplus, but this check does not operate until a condition has been reached from which there is no escape without suffering and loss. It devolves on the common sense of mankind to decide whether it is better to control production in time to prevent this suffering and loss or await the tardy check of the surplus and submit to the inevitable disasters that follow in its train.

Let us look into the merits of regulation a little further. A builder who has a contract to erect a house does not build a second because he made money on the first. He had a demand for one house of that kind and he built just one. If he pursued any other course he would lose money and would deserve to lose it. No one criticises him because he regulates his production of houses according to the demand he has, but he would be severely criticised if he failed to do so.

Why is it less proper for a factory to limit its production to the number of shoes or coats it has a demand for? Is there any moral difference between the production of the house that shelters a man and the making of the clothes he wears or the bread he eats?

Why should the farmer be blamed for trying

to grow no more wheat or corn or cotton than the world will take at a fair price? And if the farmer does this or tries to do it, why should he blame the manufacturer for trying to do the same thing with his product? If the farmer does it by organization, why should not the manufacturer use the same method?

Some people think there is no health in the body politic unless the producers break their necks trying to outdo each other. Unfortunately this happens much of the time and because they see it so often some think it is necessary for the good of the country. They imagine that when the market is glutted and goods are sold for a song the public profits by the loss of the producer, but sooner or later the depression reaches a point when those who gloated over cheap goods find their business demoralized, profits gone and sometimes the occupation with it. Steady employment depends on prices which will afford a living wage and a fair return to capital. On steady employment depend the purchasing power of the masses and profitable business for all classes.

There is no class whose interest does not demand that fair prices be paid for every article the country produces, and that a fair wage be paid to every man who does an honest day's work. These things, vital as they are to the welfare of all, can not continue in the face of

over-production, and will only be enjoyed periodically, with long, heart-breaking years of depression between the good years, until the world learns how to regulate production and stop the waste of surplus.

Many lessons will have to be learned from the costly teaching of experience before co-operative regulation of production will be a success, and its failures in recent years have led some to think that regulation is impossible. But while wise men are wagging their heads and explaining how regulation is contrary to the law of supply and demand, the efforts at regulation go right on, because they are forced by an unseen law which compels a closer adjustment of supply to demand.

The chief cause of failure so far seems to be found in the fact that an attempt has been made to control prices without regulating production. This reverses the order of nature and brings the efforts at regulation into direct conflict with the law of supply and demand. The inevitable result is disaster.

If, instead of flying in the face of well-established principles an earnest effort had been made to measure the demand and fairly adjust the supply to it, results would have been more satisfactory. An important object lesson is found in the steel rail pool's agreement to main-

tain a uniform price of \$28 per ton for several years.

Concerning the policy of the steel corporation and its effect, Mr. J. C. Boyles, writing for the *New York Times*, said in January, 1902:

"In the opinion of the writer the satisfactory conditions existing at the close of 1901 and the beginning of 1902 and the confidence with which their continuance for at least another year may be predicted are chiefly, if not wholly, due to the fact that the United States Steel Corporation has held a firm hand on the throttle valve and discouraged all schemes to bring about a "boom" in the markets which, if not controlled by it, are at least influenced irresistibly by the policy of the management of that corporation. There has been some criticism of this policy among producers, who regard it as an arbitrary interference with the natural course of trade to hold prices steady when all the productive capacity of the country is run to the breaking point and those wanting material would in many instances gladly pay more than the market price to get it quickly. This criticism would be warranted if long experience had not shown that the tendency of such conditions as those which exist at the moment is to rush prices to a level at which consumption is sharply curtailed, and that the resulting reaction is disastrous to every interest involved.

“But for the sustaining and restraining influences at work through 1901 we should now be witnessing the exciting incidents of the wildest boom in iron and steel the country has ever known. Prices would be what manufacturers could get, which in every case would be materially more than are now demanded, materials would advance all along the line, labor would be restless and discontented, and the only prognosis possible for 1902 would be imminent collapse and disaster. It was the expectation that exactly this would happen which led so many experienced iron masters at the beginning of 1901 to predict that the year would end in depression. A condition of business which as far as possible is satisfactory to both makers and consumers, which makes business profitable all along the line, and warrants the planning of undertakings involving a large consumption extending far into the future, is without precedent in the history of this great industry, and shows that wiser and more powerful influences are at work to hold it on even keel than ever before. That this policy involves no great sacrifice for the manufacturers may be inferred from the fact that the net earnings of the United States Steel Corporation are understood to average \$10,000,000 per month, with nothing in sight to suggest that this will not continue through 1902.”

Since the foregoing extract appeared in print, events have furnished their own comment on the effects of the policy described by Mr. Boyles. In the summer of 1903 production was checked by a great decrease in the demand for products of the steel works. Profits shrank, and the United States Steel Corporation, which had been reported as earning ten millions net per month, was constrained to pass the dividend it had been paying on its common stock. This stock, in the month of listing on the New York Stock Exchange in 1901, sold for $44\frac{5}{8}$ and in April of that year brought 55. In May 1904, it was sold for 9, and the preferred, which sold on listing at $94\frac{1}{2}$, and in April, 1901, at $101\frac{7}{8}$, went for 53. Thus the common and preferred stocks, which the market had valued at 787 millions, were, by the same arbiter, appraised at 315 millions three years later.

Still the price of \$28 per ton for steel rails was maintained in the United States, but American rails were sold much lower in Canada, with the result that the Canadian railways had an important advantage over American railways on an article produced in the United States. The Canadian railways could afford to put in betterments, while those of this country curtailed orders for rolling stock.

Thus it is made clear, that, while in prosperous times, speculative fever may be checked by

artificial restraint on advancing prices, production is not checked, and the very fact that prices are relatively low, stimulates the demand and pushes production to its utmost capacity. So great was this stimulus that, during the latter part of 1902 and the first of 1903, the railways of the United States were unable to move the freight offered. In the effort to avert one disaster, another was invited. Speculation was discouraged, but over-production was stimulated and depression hastened. The trouble with this effort at regulation of industry was that it tried to resist natural economic forces instead of adjusting industry in obedience to their laws. The attempt was to regulate price rather than production, to control the symptom without controlling the disease. The real opportunity for regulation is in production. When that has been so gauged that it fits consumption approximately, there will be no serious trouble with prices, unless somebody attempts, by artificial means, to fix them on a level too high or too low. The market itself is the only safe regulator of prices.

Professor Ernest Von Halle, an eminent German economic writer, made a statement concerning the policy and effect of trusts (cartels) in Germany. In reply to a series of questions propounded by Consul-General Mason at the instance of the U. S. State Department, he said :

"I do not hesitate to say that in my opinion Germany would be already in the midst of a dangerous industrial crisis but for the modifying and regulating influence of our cartels in most branches of production and distribution.

"This country, with its dense population and increasing capital that seeks employment, could not stand that reckless speculation that would result from unrestrained competition. Modern production by means of steam-driven machinery can not stand unlimited competition, which too often leads to the destruction of the value of large capitals. Machine production requires close technical regulation and does not admit of economic anarchy.

"So the effect of cartels seems to have been to initiate a more harmonious system, permitting promoters to invest their capital in many instances with ease and safety, where, without combination they might have been too timid to assume the risks of unlimited competition. The relatively low quotation of German consols and other public securities may be partly attributed to the great number of safe investments in cartelized industrial undertakings."

As to the effect of combinations on prices in Germany, Prof. Von Halle says:

"I only know of a few cases where complaints have been made about undue advance in prices originating from cartel manipulations. The

wholesale cartels seem to regulate their prices rather closely in conformity with the general tendencies of the markets, while shopkeepers' cartels try to keep theirs as steady as possible. It has been frequently shown, especially in late years, that the large wholesale cartels have also followed the policy of steadying prices, and while they have served to avoid local and temporary breakdowns, they have in various instances officially warned their members and other industries to refrain from the exaction of excessive profits in times of generally rising markets. Here and there they have offered long contracts for one or two years' supplies which they have on the other hand sometimes enforced on their customers."

The following paragraph is especially significant:

"The regulating influence has been very strong where dealings took place between a number of powerful cartels in various phases of industrial production. The general impression is that this steadying tendency has been the most characteristic effect of cartels upon the home trade."

Regulation in Germany seems to have been successful when it confined its efforts to adjusting production to demand. The effort to keep prices down in prosperous times in spite of heavy demands has hastened the day of over-

production and led to a condition which made it necessary to export a large surplus at low prices in order to relieve the home market—exactly the result of an artificial price on steel rails in the United States.

It is instructive now to study the new factor mentioned in the last paragraph quoted from Prof. Von Halle, in which he says that the regulating influence was very strong “where dealings took place between a number of powerful cartels in various phases of industrial production.” There we see the effect of the federation of industrial combinations, which is the longest step toward regulation. When federation takes place, a clearing-house of industry becomes possible.

This means the exchange of information showing the relative supply of labor in the principal industries. If, for example, there should be a shortage of ten per cent. in the cotton mills and a surplus in another industry, the information would be available much earlier than it could be under present conditions.

The transfer of labor from overdone industries to others which need help is an important factor in the regulation of production.

Labor released from fields and factories by labor-saving machinery, is constantly seeking new occupations, and as it must have a living,

there is a tremendously growing demand for new industries.

There is in the multiplying wants of man enough to engage his attention for the reasonable day's work. New wants are increasing as fast as labor is emancipated from its old employments, and if only there were a more ready transference of the surplus energy of the world from congested industries to new ones, there would be more uniform and remunerative demand for all the products of toil. The salvation of labor as well as capital, is to be found in more timely information and a prompt transfer of both from the industries that are overdone to others which are unable to meet the demand for their products.

The difficulty in transferring labor and capital from one undertaking to another is that they are not sufficiently organized and not sufficiently informed as to the extent of supply and demand. The consolidation rapidly progressing, of most establishments in important industries, will to a large extent overcome this difficulty, for as one head or one set of heads comes to control an industry, it will know the total capacity of production and will find means to measure the remunerative demand. When that stage is reached, production will begin to adjust itself to consumption in a natural way. A further step in the progress toward adjustment will be

the conference of combined industries in different lines for exchanging information as to the extent of production and consumption, and this will lead to co-operation in the transfer of labor and capital to the point of greatest need. The natural tendency to adjust the supply of labor and capital according to remunerative demand will so far be freed from present restraints that labor will find its best market far more quickly than it does now, and the harmful results of over-production or misdirected energy will be reduced to a minimum.

The further obstacles to such transfer caused by the specialization of labor, unfitting one man for another's employment, may be in a measure overcome by the broader education of skilled labor, with wider training, which will give the artisan an alternative craft.

Much relief in times of depression would be afforded by a broader training of labor, which would give a pleasant and profitable change from languishing industries to others.

There are arts and industries, whose products greatly add to the comfort of living, which might be used as absorbents of overflow labor from other industries.

If it became a part of the training of labor to have some such alternative craft, it would be fortified against times of unemployment in the main industry of its choice. Such surplus in-

dustries would be almost always profitable, because not overdone, and if more than hand trades, the necessary capital would be easily secured. For some of the overflow labor the alternative craft might take the form of flower culture, market gardening, trucking, and poultry farming, the products of which are in never-failing demand at remunerative prices. The appeal to mother earth would never be in vain, and the change would be refreshing and invigorating to the factory operative, so long pent between walls. The greater supply of wholesome food would be an immense advantage, not only to the producer but to the entire community.

It would be a great stay and comfort to the artisan to know that if there came a time when work failed in his chosen trade, he had something to fall back upon, and that something an occupation for which he had skill and training, making it a practical, dependable resource, which, while it supported his family, would build up his physical frame and tone up his mind by the invigorating effects of change.

Specialization has many advantages, but with them the very great disadvantage of narrowing the sphere of life and this tends to produce cranks and extremists. A broader training and fuller experience of life would give us broader and better men.

CHAPTER VIII

HOW NATURE HELPS REGULATION

The interdependence of industry spreads a surplus over a wide area, and the wider and freer our commerce, the more are the evil effects of over-production mitigated.

C O-OPERATIVE regulation of industry is assisted by natural forces. They lead regulation and prepare the way for it.

In order to appreciate this fact in its full significance, it is necessary to look into the interdependence of industries and see there the play and counterplay of connecting influences which operate to stimulate or check production.

In the long depression that followed the panic of 1893, nature came to the relief of industry. The fields of the Western States brought forth immense crops of grain and the railroads of that section were taxed to the limit of their facilities to move the crops within the usual time. In the New York stock market the price of "granger" stocks went up and others revived in sympathy. At the same time there was a revived demand for lumber to renew and increase the rolling-stock and to renew bridges and other structures. In the years of depression and bankruptcy, railroads had lived a hand to mouth existence and neglected their equip-

ment. When the deluge of grain came they placed orders with the car works and lumber mills. For this reason the lumber industry was the first to revive in the South. Gradually the stimulus spread, with increasing return for cotton and reviving business, and the tide of prosperity rose, inundating all industry, until the summer of 1903, when it was discovered that there was a surplus of iron and steel. Then began another period of depression.

In the period from 1900 to 1903 there was an unusual demand for manufactured goods, especially for products of iron and steel. Production increased at such a prodigious pace that for the first time in their history the railroads were unable to move the products of the factories. Iron furnaces were compelled to bank their fires because the railroads could not bring them coke.

Here transportation applied a natural check to production. Within a short time the railroads themselves received a check from producers. By the middle of 1903 production began to fall off and by the end of the year the demand for rolling-stock was so much less that railroad companies began to countermand orders for cars. Here again was a further check to production. Car works, car-wheel works, furnaces making car-wheel iron and sawmills cutting car timber and bridge timber saw the de-

mand for their product slacken and almost cease. By the summer of 1904 many of these plants were idle.

Rapidly the process runs from industry to industry until, in the country as a whole, there may be a million unemployed men. The law of supply and demand operates to force down the wages of labor still employed, and this reduces the purchasing power of the wage-earners and in the same proportion curtails the demand for supplies. The profits of business shrink and business men spend less freely. Again the demand is reduced. So the painful process goes on until the extremely low prices and low wages tempt the investment of hoarded capital and a reaction sets in.

At such times single industries, supported by export demands, often present a curious contrast to the general depression. In 1903 the high price of cotton brought into the Cotton States about \$617,000,000 for one crop and the South was more prosperous than ever before. This cotton crop probably prevented serious trouble when, in a time of monetary stringency, the Government had to pay \$40,000,000 to France for the Isthmian canal.

It is estimated that Europe paid this country \$350,000,000 for its share of the cotton crop of 1903, and this great balance to the credit of the

United States was the mainstay of the money market in 1903-4.

This incident in the history of the cotton crop shows the salutary effect of intimate commercial relations with other countries. The effects of industrial disturbances are mitigated when we have the world for a market. Influences that paralyze the home market are scarcely felt abroad, and the world comes to the relief of our producers when the purchasing power of our own people runs low.

Pig iron furnishes another illustration. In 1896 and 1897, when the price of pig iron fell below the cost of production, an export demand sprang up and thousands of tons went abroad. This took off much of the surplus and the home market revived. Then exportation ceased. In 1901-2 when production could not keep pace with demand, we imported iron and steel. In 1903 over-production was again evident and prices began to fall. By June, 1904, pig iron went down to the exporting point and the surplus began to flow abroad again. Once more the world came to our relief, but a renewed domestic demand again raised prices and stopped export.

CHAPTER IX

SHALL COMPETITION SURVIVE?

Natural monopoly holds the key to the situation and only government can control it.

This brings us to the important question, Who shall control the government?

THE popular dictum, "Competition is the life of trade," has done good service, but those who see no other force at work in the world are oblivious to the rise and fall of institutions. This new force which disputes the ground with competition is co-operation.

Sociologists tell us that there comes a time in the history of governments, when the militant type, having done its work, gives place to the co-operative type.

Says Spencer:

"From war has been gained all that it had to give. The peopling of the earth by the more powerful and intelligent races is a benefit in great measure achieved, and what remains to be done, calls for no other agency than the quiet pressure of a spreading industrial civilization on a barbarism which slowly dwindles."

The same evolution has brought industrial institutions to the point where the militant type, characterized by competition, has reached the danger point. By the survival of the fittest we

have industries so great and so powerful that they would destroy each other and pull down the whole framework of business if competition between them went on without restriction. For example: the big railway systems have to put buffer combinations called traffic associations between themselves to prevent mutual destruction by cut-throat competition. When the courts dissolve these buffers, the next thing is a consolidation on a larger scale, or if that is defeated, a community of interest and a kind of unwritten working arrangement which serves as a *modus vivendi*.

Competition unrestrained becomes destructive under modern conditions, and the strong crush or capture the weak. Thus competition tends to destroy itself, and to establish monopoly in its place. The ranks of industry are thinned by this warfare, but the survivors are great in proportion to the number of their victims.

Among the great survivors we see some competition, although they seem to be afraid of each other and exercise great ingenuity in devising means to avoid conflict. Their truces sometimes result in further combination on a larger scale, and thus more and more, industry is unified.

Will competition survive this process? Are we really coming into an era of monopoly? About this the consensus of opinion among

economists is that monopoly can not be established unless it is a patent, a "natural monopoly," or one supported by the discrimination of a natural monopoly. On looking over the list of great industries which occupy a commanding position in the business of the United States, we find that the strongest of them are connected with natural monopolies in some way, or enjoy patent rights which amount to monopoly.

Of the natural monopolies, the strongest are the railways, which have no competition at way stations and practically a monopoly at other points by the establishment of uniform rates, through traffic agreement or some kind of understanding. Their only competition is in service. Street railways, gas works and waterworks usually have a complete monopoly.

The strongest combinations in the industrial world are formed by two or more natural monopolies. A familiar example is the combination of railways owning anthracite coal mines in Pennsylvania. A more complex case is that of the United States Steel Corporation. It connects railways, coal mines and iron ore deposits which are natural monopolies, with factories, which by themselves would be competitive. In addition it owns patents, which are monopolies made by the Government.

The oil wells are natural monopolies, but refineries separate from the wells were competi-

tive. They are combined in the Standard Oil Company.

The combination of natural monopoly with competitive industry, either by ownership or by reciprocal favor, results in such great advantage that these concerns tend to overshadow their competitors and cause grave apprehension that they will eventually sweep the field and drive all competitors out of business. The Standard Oil Company has come so near doing this, that it might be called a practical monopoly. United States Steel Corporation is young, but has become the greatest industrial combination in the world. But the Steel Corporation, great as it is, is not a complete monopoly and can not maintain the price of rails without an understanding with other producers. A bulletin of the American Iron and Steel Association showed that in 1901 this corporation produced less than one-half the pig iron and only fifty per cent. of the rolled products of steel.

The New York *Journal of Commerce*, commenting on this fact, said:

"It has been one of the interesting phases of the development of trusts that they have not prevented new competition even when they have begun with the inclusion of nearly all producing plants and every promise of being approximate, if not absolute monopolies. The Steel Corporation is so vast in its capitalization and in

the extent of its operations that it might well have frightened off competition, but from its very organization, new competition has been starting up. What would be the fate of some of the plants if consumption should become insufficient to absorb the entire production and whether the great plants or the small ones would best endure a period of contraction, are problems that only the future can solve. But for the present and the immediate future consumption is absorbing the entire production and has compelled manufacturers to import steel."

Since this paragraph was printed, production passed consumption, business fell off and the United States Steel Corporation passed its dividends on common stock depressing the stock to nine dollars a share.

In this connection the experience of the United States Rubber Co. is instructive. According to the report of President Samuel P. Colt, issued on May 20th, 1902, the company was then ten years old, and in 1893 controlled half of the rubber output of the country. In 1898 this proportion was increased to three-fourths by the acquisition of the Boston Rubber Shoe Company. With this proportion of the product in its hands and with a capital of \$47,000,000, the official report of the concern shows a deficit of \$418,103 during the year ended March 31, 1902.

This remarkable result of the operations of one of our most powerful combinations is shown to have arisen from the previous error of fixing prices too high. President Colt says:

“While the United States Rubber Co., during the ten years of its existence has met with a fair degree of success, it became apparent more than a year ago that prices were maintained at a figure which stimulated competition and the formation of new companies and the investment of new capital. Consequently, in January and February, 1901, your directors determined that it was wise to make a marked reduction in prices, which brought the selling price of the standard grades of goods down to about the cost of manufacture. The result of this reduction has been that sales have largely increased. For the year ending March 31, 1902, the gross sales of the company were \$49,917,536.84 as against gross sales of \$32,224,216.14 the previous year.

“The regaining of trade through the reduction in prices as above shown has been largely accomplished.

“The problem now before us is, how to manufacture and market the large product of goods at a fair margin of profit.”

This shows that exorbitant prices enforce their own penalty.

It is pertinent to recall two facts, which make for competition, the increasing supply of capital

seeking investment and the constant release of labor from old occupations by the introduction of labor-saving machinery. This release of labor is only temporary, but it throws a supply on the market for new enterprises. When we remember that consolidation is in itself a form of labor-saving machinery we can see that this process tends to increase the temporary displacement of labor, especially the labor of superintendence.

The steady decline in interest rates on first-class securities is sufficient evidence of the increase of capital in proportion to opportunities for investment. This fact is established by the experience of life-insurance companies. Twenty years ago their schedules of premiums on policies were based on four per cent. compound interest. About ten years ago they began to change to a $3\frac{1}{2}$ per cent. basis, because they found their investments were not likely to yield four per cent. Recently they have begun again to readjust their premiums, and this time they have adopted a three per cent. basis. Thus in twenty years the rate of interest on the best securities has fallen twenty-five per cent.

Couple with this condition the fact that we have at times had a million men unemployed, and consider the natural result—labor and capital unite in new industries to compete with older ones.

The New York *Journal of Commerce* said on June 23, 1902:

"It has taken twelve years to rehabilitate industrial capital which may perhaps be fairly valued at four and a half billions, with a view to shielding industry from the operation of the natural law of competition, whilst the reconstructions have made but insignificant additions to the original capitals of the blended corporations.

"Within one-eighth of the same period the creations of independent industrial capital have amounted to approximately five billions of dollars."*

The events which occurred in the years succeeding the publication of this article have amply established the correctness of the editor's view. The common stock of many great combinations became a drug on the market.

Having set forth conditions which tend to make competition permanent on a scale con-

*Accompanying this statement were the statistics on which it was based. From carefully prepared compilations made by the *Journal of Commerce*, it appears that during the twelve years from 1890 to 1901, inclusive, the new capitalizations of consolidated corporations aggregated \$6,474,000,000 of which \$1,998,000,000 consisted of preferred stock, \$3,362,000,000 of common stock and \$1,014,000,000 of bonds. Two billions of common stock are rejected as water, leaving \$4,500,000,000 as the true capitalization. Of this only \$300,000,000 was new capital.

stantly growing larger as combination proceeds, we have now to consider other facts which make for monopoly.

It is an acknowledged fact that railways have given secret rebates or special rates to large corporations whose business was of such proportions that it became an object of serious competition between railway systems. The Standard Oil Trust got its start and crushed rivals by the aid of railway discrimination. So long as the States and the Federal Government fail to stop railway discrimination railroad managers will have it in their power to foster monopolies.

The power of patronage tends to fortify monopoly.

The ruling spirits in the consolidated industries have control of immense railway systems. It is idle to deny that such a community of interests in transportation and manufactures will operate to the advantage of both. There is no law against giving the patronage of such railroads to the industrial corporations in which the owners are interested. Railroads are immense purchasers of steel and in dull times the turning of their orders one way or another would have such an effect as might decide whether certain mills were shut down or even placed in receivers' hands.

Take another example of its possible effect: The same man who dominates thousands of miles

of railways stretching across the continent, has organized a combination of transatlantic steamships. With a community of interests between the railroads that haul grain and other export products to the sea and the ships that carry those products to Europe, it is easy to see what ships will haul the grain delivered by the roads. What law can prevent steamship lines which cross the ocean from making their traffic connections with the railways owned by the same group of capitalists?

As in the case of the railways, the steamship lines can give their patronage to the factories and mills owned by friendly parties. As the modern steamship is built of steel and combines the products of three hundred industries, it is evident that the turning of this business one way or another will have a far-reaching effect.

It is in this direction that a large proportion of the power of transportation companies lies. Rebates and discrimination are restrained by the necessity for secrecy and the danger of discovery. There is no such restraint on the powerful lever of patronage. The railways, to begin with, employ 1,300,000 persons, and paid out to labor in 1903 the sum of 757 millions. Their total disbursements were 1,257 millions. Their purchases sustain the car works, car-wheel works, and locomotive works, which employ

thousands of men, and largely sustain other works making steel rails. None of these industries could exist without the railways.

Now see what could be done by a group of capitalists owning railways, steamships and industries to build up their own factories and divert business from others.

The principle of community of interests has in it possibilities more far reaching than the public has realized. It is a subtle and irresistible power which may use in a positive way the methods which negatively used to go by the name of boycott.

Thus the positive form of patronage, unaccompanied by the ugly features of the boycott, can hardly be controlled by legislation. This possibility of the community of interest regime has not fully developed, but it certainly will develop if present conditions continue. This assertion is based on certain traits of human nature which have manifested themselves in politics. The influence of patronage there is tremendous. So powerful is it that once the spoils system has fastened itself on a country, it takes years to break the shackles of patronage and substitute civil service. We have not yet accomplished that emancipation in America.

Patronage in politics is so demoralizing that at times it amounts to corruption of a kind so subtle and elusive that the law can not take

hold of it. Men who could not be reached by money bribes are controlled by patronage.

When the power of patronage is brought to bear by several powerful corporations or combinations of corporations upon another, the force is irresistible. Railway systems combining at a given point can crush a troublesome rival by diverting traffic from it and leaving it with an empty treasury. Next there comes a receivership, followed by a forced sale, at which the combination buys in the property of its victim at a ruinous price.

The recent combination of manufacturing establishments on a colossal scale makes possible similar operations.

The public apprehension so far has been directed to extortion in prices, but it has not been realized that without raising prices to an extortionate level, community of interests may build up an industrial and financial oligarchy before which no rival can stand and so powerful that nothing short of a revolution will break its fetters.

From the ordinary dangers of combinations, the natural law of competition seems to be sufficient protection, but when the tremendous power of patronage is added to the power conferred by natural monopoly reinforcing combination, with a community of interest running through transportation, mines, and manufac-

tures, through natural monopolies and their dependencies, a new situation is created, the end of which it is difficult to foresee. It is pregnant with dangers which may test the strength of our Government.

The key that unlocks this problem is the control of natural monopolies. Their power is supreme unless controlled by government, and if not controlled, they breed a series of dependent combinations, which amount to practical monopoly.

There comes then the inevitable conflict between the public and the owners of natural monopoly, over the question of government control. This issue is clearly made in the proposition to regulate railway rates through commissions and the stubborn opposition by the railway owners to every effort to make regulation effective.

Monopoly, or supreme power was never permitted to remain indefinitely in human hands. Tyranny is inseparable from it. This always has been and always will be true. It is a trait of human nature, and until we have a new kind of mortal, will continue to be. The latent danger is in man himself, without regard to class or condition. It is a true instinct which makes people resist such power, whether in politics or industry, and they will go to any length and use any means that may be neces-

sary to control the men or the institutions which rise to this dangerous eminence. It would be well for the owners of railroads to consult history on this subject.

The greater the power, the larger the combination, the vaster its resources, the greater will be the struggle for control; and when control is to be exercised by government, it can not be established except after a struggle in which all the arts of the demagogue will be used to prevent it. The very worst elements of politics are invoked when the politician is in league with business interests staked on the result of governmental action. The practical politician trading offices is pure and undefiled in comparison with the political agent of a corporation that is willing to buy results at high prices.

The danger is that in the effort to control monopoly and the opposition thereto the electorate may be corrupted and a permanent poison instilled into the body politic. We have had a foretaste of this in the corruption of municipal government during the fight for franchises of public utilities.

Against this assault on the citadel of liberty, the best fortification is the uplifting of the masses by thrift, education, religion and the genius of organization, which will enable them to present a solid front against the encroachments of power.

There is no safety in an ignorant democracy and there is no safety in the numerical majority of the masses unless they are wisely led. They will not be wisely led unless they are well informed. Hence the necessity that the public be kept posted as to the true conditions of industry, especially with regard to industrial combinations. Ignorance of the masses is the demagogue's opportunity and the opportunity as well of the despot. To defeat both and hold the even balance of justice there is need of light.

In other words, publicity in corporate affairs is not only necessary for the protection of investors, but absolutely necessary for the protection of government itself.

The facts so brought to light will create an irresistible public opinion in favor of government control of natural monopolies. Every man, every business firm, every manufacturer, not a beneficiary of discrimination, and every city not especially favored will at once see that prosperity depends on fair treatment, and there will be a thousand voices raised for regulation to one against it. This may be resisted for a time, but eventually nothing can stand before it. Regulation will come and then the strings of dependent monopolies will fall apart like ropes of sand.

CHAPTER X

IS IT A NEW FRANKENSTEIN?

Beasts of prey are fewer than the men who hunt them.

That method which arises by necessity from the relations of things is not anarchy but obedience to the law of nature.

AT this point I am aware that the over-zealous patriot may bring a railing accusation against me. He will say that I have called into existence a new Frankenstein, a monster with great power and little mercy, human in its intelligence and inhuman in its indifference to suffering.

The devilish ingenuity of the man who could invent such an engine of oppression might well be a subject for moralists to dilate upon, but it happens that such things are not invented, except allegorically. There is a basis in fact for all of them, however fanciful the garb in which the imaginations of authors may array them.

When necessity created the means to protect the producer against his own misdirected energy, it put into his hands a two-edged sword which may be used to oppress his neighbor while he defends himself. This is the machinery to regulate production. No man created it, nor

has anyone planned it, or brought it about of his own free will. It was not invented by man, because its component parts were built up for another purpose—the purpose of self-preservation. Men and corporations were forced to save themselves from loss or bankruptcy by uniting with their competitors and stopping the destructive warfare which had been waged between them.

What has been described is the thing that exists and so much of the future as casts its shadow before. It is not what we devise or what we imagine, but the thing which we find at large upon the earth, working changes which come whether we like them or not.

When we get upon this plane where age-long influences are at work, invention is not of man, unless it be in the sense that he has found or come upon that which a higher power has brought about through long devise. Whether we call it evolution or providence, it has a method which is more wonderful than miracle.

The trust is a world-wide fact that has to be reckoned with. It exists in all civilized countries, regardless of tariffs and anti-trust laws. It is found in Europe, where government approves as in America where it is under the ban, in free trade England, as well as in the countries where protective tariffs have been erected to keep out foreign competition. It is true

that tariffs favor its development, but they are not the prime cause. That cause is universal, for it builds up trusts wherever business is carried on by modern methods.

The tendency to use the trust as machinery to regulate production is also general. Efforts of this kind have been made at the same time in different parts of the world, by different sets of men, speaking different languages, who doubtless had no idea that other men in other countries on the other side of the world were doing the same thing. The suggestion came to them separately and independently and it arose out of the relations of things. When a certain number of producers were joined together, new possibilities arose and were seen by the men in charge.

That method which arises by necessity from the relations of things is not anarchy, but obedience to the law of nature. This is nature's way in all her walks. She moves on the line of least resistance. The development of the trust seems to be a case of that kind.

We have the trust because the world needs it.

Like everything that does something the world can not do without, the trust has gotten to itself great power.

Great power carries with it the danger,

amounting to certainty, that it will be abused if not restrained.

That is the actual situation with regard to the trust if we can suppose that things will remain as they are. Incredible as it may seem, those who control the trusts seem to think the status quo will be preserved, but in this they are counting without their host—the host of consumers. It is no more certain that action causes reaction than that organization begets counter-organization. This is the key to the situation.

To those who may be alarmed by the Frankenstein idea, let me suggest the reflection that beasts of prey are fewer than the men who hunt them. The whole world robs the robber; every man would oppress a tyrant. We may then, without disquiet, continue to study the nature and habits of this new thing, whether it be Frankenstein or Friday, robber or servant. The chances are we shall find it has the qualities of both and the more closely and calmly we study it the more successful we shall be in harnessing it for useful purposes.

CHAPTER XI

AN IRREPRESSIBLE CONFLICT

We have to deal with a new and dangerous power, which is ready to measure strength with any force that can be brought against it.

IN this predicament we are under the apparent disadvantage of seeming to antagonize an institution which we have shown to be not only useful, but absolutely necessary to the further progress of civilization. But there is no inconsistency in showing the danger where we have already pointed out the advantage. We must look at things as they are, and with eyes open, we can not help seeing the irrepresible conflict that is coming between the great corporations and the people they are supposed to serve.

What reason is there for saying there will be a conflict between society as a whole and the organizations which constitute one of its most useful parts? This question is pertinent, for there is no place for alarmist views at a time when sensationalism is run mad and the air is thick with the confusing dust of discord. There is no more virtue in complaisancy. The indolent mind is never prepared for an emergency and there is nothing more dangerous than the conservatism which refuses to use its eyes.

The best reason for thinking there will be such a conflict is that it has already begun. There are few States of the Union where the railroad companies or other great combinations are not in conflict with the people. In several States political campaigns have been based on the single issue of railway or corporation rule. Such contests have been fought out almost every year for a decade and several are on now.

Sometimes the battle is fought in the legislature upon a question of taxation, sometimes in the election to determine whether governors or legislators shall be corporation or anti-corporation men.

Other contests are based on measures to protect shippers from the railroad discrimination which makes or unmakes men and markets. The courts are busy with cases of this kind and in some States hot political campaigns are made to determine whether men friendly or antagonistic to railroads shall constitute the commissions that will pass on railroad questions.

Perhaps the most stubborn contest of all is that now on between the shippers and the railway companies over the regulation of freight rates. This question has been argued before committees of Congress for several years by shippers and railroad men from different parts of the country, and each year the contest grows warmer. Congress waits on public opinion and

both sides are engaged in making their appeal to Caesar through the press. The fight over this measure has hardly begun. So far the organization is nearly all on one side and the railways have an immense advantage.

There is a desperate conflict in the cities where the public has been robbed of property worth hundreds of millions by franchise grabbers who bought up aldermen. From the days of the Tweed ring in New York until the sale of street-car franchises by St. Louis aldermen, these valuable rights have been the favorite booty of incorporated plunderers. In some cases where it was not safe or expedient to attempt bribery, the franchise grabbers have bought or subsidized newspapers and filled the atmosphere with false issues until the public mind was beclouded and they were able to secure for a song, rights which they sold for millions. In doing so they have ruthlessly attacked any one who stood in their way and faithful public servants have been punished for their virtue by these highwaymen. Such contests are increasing in number and bitterness and there is every reason to think they will continue until the question of corporation rule is settled.

There must always be some contest between different classes of society for the enactment or defeat of laws supposed to favor or burden certain classes. But the natural right of self-

defense which every class possesses, is not to be confused with the condition where certain interests are organized for predatory purposes—either to take from the people or the Government something to which they are not entitled, or to hold something which ought to be given up as a just tax.

Predatory organizations are found in almost every city and State, about the municipal government or the State legislature, and they not infrequently infest the halls of Congress. For example, a senator declared in his place and by his report as chairman of a committee, that certain transcontinental railroad companies defeated for many years the bills providing for construction of the Isthmian canal.

These predatory organizations to a very large extent influence legislation and are ready to contest the ground with any force that has been brought against them.

Such a condition exists because the people who suffer by such depredations are not organized to meet the forces held together by the "cohesive power of public plunder." So long as there is no efficient counter-organization this state of affairs will continue. Organizations are like armies, which can only be overcome by more powerful armies.

Society is in a state of unstable equilibrium because certain classes or interests are solidly

organized and ably directed, while others naturally opposed to them are disorganized and demoralized—demoralized by the regularity with which they have been defeated in all contests with the organized.

No condition of real stability can be reached until all the important classes or interests are separately organized and disciplined to the use of organization. In other words we have great forces operating, practically without resistance, against the interests of the masses of the people and they will continue to raid the public rights and public property until some kind of organized defense is prepared.

The masses of the people, in their simple faith, look to the government for protection, forgetting that the government is the representative of all the powers and interests that live under it, and of the interests thus embraced, the best organized and ablest led are likely to prevail in the councils of government. They have able spokesmen in every legislative hall and about every executive officer.

The only way to end the conflict between the people and the corporations is to complete the organization of all the classes whose interests are imperiled. This done, the different classes will take care of themselves. They will have peace when they can compel it. Complete organization is the best guaranty of stability.

CHAPTER XII

THE SEPARATION OF CLASSES

It is necessary to separate and organize before we can get together on a permanent and stable foundation.

Justice requires the support of organization. Without justice there is no peace.

AS foreshadowed in the preceding chapter the good of society requires the separate organization of the classes which have different interests to develop and protect.

The main functions of society from an economic standpoint are production, distribution, exchange and consumption.

Under the head of production most of the classes called labor and capital are grouped, and as we shall see in the next chapter, they are already well organized and many of the issues between them have been fought over. The farmers as producers are little organized, but we shall see more of them later.

Distribution includes the work of railways, steamships, etc. In a larger sense it may include commerce, but as that has interests different from transportation, we group it separately under the head of exchange.

Transportation has given the best example of the complete organization of a class for of-

fensive, defensive and constructive purposes. It includes 1,300,000 wage-earners who have organizations of their own.

Under the head of exchange we may group mercantile and banking interests, with that of insurance as an important auxiliary.

Banking and insurance interests are thoroughly organized and wield immense power which dominates the financial world. There is an extensive literature concerning them as there is about transportation. Their new feature is the tendency to combination which we see in every phase of business. A development of this feature which has startled the public is the ease with which the immense assets of insurance companies held in trust for policyholders can be manipulated by barnacle corporations called trust companies, in the hands of insurance directors who combine in syndicates to feather their nests with the funds which the confiding public has placed in their hands.

The mercantile class is partly organized, but not so thoroughly as producers, transportation, banking or insurance.

There is a tendency of manufacturers to draw nearer and nearer to the consumer and thus eliminate the middlemen or merchants. This has hastened the day of organization among merchants.

We have now to trace the organization of the

producing classes in the two groups of labor and capital. Then we shall take up the consumers, who constitute the last and greatest of the economic groups; with the complete framework of industry organized, we shall be able to see what kind of government it will support.

CHAPTER XIII

SEPARATION OF LABOR AND CAPITAL

Action causes reaction and organization begets counter organization.

UP to this time we have considered combinations of capitalists, with merely incidental references to labor. We have now to take into account combinations of laborers, as such, for concerted action in dealing with employers, and combinations of employers, as such for concert of action in dealing with labor. Then we shall learn something of the dealings between organized labor and organized capital, and their experience in the effort to form double combinations including both of these great productive forces.

We shall find the following stages of progress:

1. The guild, a combination of capital and labor.
2. The separation of labor and capital in two camps under the factory system.
3. The organization of labor and capital, locally and nationally.

In the different stages of this progress we shall see agitation accompanied by heat and violence in the early history of every organiza-

tion of labor, tending gradually to conservative and pacific methods as experience educates the leaders to a higher and broader plane of thought.

The same experience is duplicated in the organization of capital, with a repetition of almost every unpleasant incident that accompanies the organization of labor.

MEDIEVAL GUILDS

The early form of combination between capital and labor is found in the medieval guilds which were composed of merchants and master-workmen. The guilds were essentially different from trade unions, in that they did not include in their membership the mass of laborers.

The guilds were at one time, also political, as well as industrial bodies. In London it was the prerogative of certain guilds to control representation in the local government.

The guilds were in the time of Edward III. monopolies, securing their exclusive privilege by the payment of large sums of money. Membership in the guilds was dominated "freedom" and was purchased at a high price. It conferred the right to participate in the regulation of the craft and to have part in the political power exercised by the guild. There were seventy-five of these in London and the most important were called "The twelve great companies." Membership cost from \$22 to \$570.

There was in these early organizations, both the merchant guilds and the trade guilds, the same tendency of human nature to seek advantage over its fellows that we see in the combinations of labor and capital at the present day. First of all, the guilds sought to eliminate competition and establish monopoly, and in this they succeeded better than modern combinations, because their monopoly was supported by law. By the payment of large sums to the crown these monopolies were secured, and because the sovereign derived a revenue from this source, he jealously guarded the monopoly. So oppressive did these early monopolies become that they were obnoxious to the courts and Bacon called them "fraternities in evil." They made entrance difficult by exacting heavy payments, and further checked the supply of labor by limiting the number of apprentices a master might have. Apprentices were required to serve seven years, and this custom was made law by the statute of Elizabeth, which remained in force for several centuries.

The public of those times regarded the trade guilds very much as the modern public regards the trusts, namely, as conspiracies in restraint of trade. As such they were repugnant to the spirit of the common law and the courts held them to be illegal. From the time of Edward I. to George IV. nearly forty statutes were en-

acted to carry out the spirit of the common law.

These combinations were partly capitalistic, for the masterworkmen who composed them were the manufacturers of that day, and partly of the labor element, for the masterworkman was still in the shop, working with hands and depending on manual skill as much as or more than upon his financial and executive ability. Their apprentices often became masters.

Changed conditions growing out of the Reformation, swept away most of the social and religious guilds, and the trade guilds, already unpopular, suffered gradual extinction as the result of the growing sentiment of the times.

TRADES UNIONS

Next came the trades unions as a development of the factory system during the latter part of the 18th century. They differ essentially from the guilds in that they have not the capitalistic element and seek to bring in the whole mass of labor rather than to narrow the circle. Consequently, they have become more popular and their membership has reached larger proportions. They have, however, the same object in limiting the supply of labor, raising wages, and shortening hours. They also have the same features of mutual help in case of sickness or death, with the added provision for help in case of

strikes. The money spent in strikes, however, is but a small part of their total disbursements, which are largely for mutual help.

The trades unions have some socialistic features which are a fruitful cause of disagreement between workmen and their employers. The most marked is the tendency to equalize the compensation of all journeymen, and to equalize their opportunities for promotion, regardless of individual merit. This system strives to put promotions on the basis of the turn at the mill, first come first served. The result is to place mediocre men in important positions which only the most skillful and the most intelligent should occupy. This minimizes the output of the establishment and puts it at a disadvantage in competition with others in which the same wage-scale is paid. In the long run, this must react on the labor employed in establishments organized on this socialistic principle, by minimizing the business and consequently decreasing the demand for labor. This, in the opinion of some intelligent observers, is a consequence already felt in England. The freer industry of other countries is too strong a competitor in the world's markets for British manufacturers, who are handicapped by a more rigorous application of this socialistic principle than is made elsewhere. That the same principle is applied to a considerable extent in the United

States is undeniable, and if it goes to the same length, it will have the same result.

The great difficulty with trades unions has been that when they became strong through the accession of large numbers of men and began to feel their power, they yielded to the temptation to abuse it.

The labor union, starting out with confidence, was often outgeneraled by the employers, even before there was such a thing as an employers' association. Then the workmen lost their tempers and resorted to violence and intimidation, carrying it sometimes to the extreme of terrorism and crime. We have had such conditions on a large scale in the United States, particularly in the Pittsburg strike of 1877, when the courthouse was burned; and the great tie-up and accompanying riots at Chicago in 1894, when millions of property were destroyed, hundreds of miles of railway were blocked, and traffic was more or less interfered with in 27 States. This greatest of all strikes was finally stopped by the United States army, when the governor of Illinois failed to restore order and the injunction of a Federal court was resisted.

Labor there learned that violence was its chief danger, because it threw the laborer into collision with the Government, and that public sentiment not only sustained the Government in suppressing violence, but imperatively de-

manded the performance of that stern duty at any cost.

The boycott was used with terrible effect until the courts punished it as a conspiracy to deprive the non-union laborer of his liberty and the employer of his property.

So organized labor, like other classes, finds itself debarred from the use of coercion, but it has remaining the right to strike and the appeal to public sentiment as effective weapons. In practice it has found that with able leadership these weapons are more powerful than any others so far tried, provided the unions act together solidly, do not strike without good cause, and in striking maintain order and refrain from violence.

Perhaps the best example of this is the anthracite strike of 1902, when public opinion forced a powerful combination of railroads and operators to agree to the methods of settlement suggested by the President of the United States.

There came a stage when the federation of local unions in national organizations gave the workmen more power than they knew how to exercise with moderation. They became arbitrary and tyrannical and the demand for the closed shop, which absolutely shut off all hope of resisting their demands, was vehemently insisted on. Soon after the organization of the United States Steel Corporation it had to meet

a strike, the avowed purpose of which was to close against non-union labor all the plants of the corporation which were not already "closed shops." The corporation resolved to stake everything on that issue and firmly resisted. In a few weeks this strike, which never had public sympathy, failed ignominiously. Similar strikes elsewhere against corporations not so strong financially were successful.

About this time there arose the corrupt labor boss of the Sam Parks type,—who ordered strikes when his demand on the employer for money was refused. This was the last feather on the camel's back.

EMPLOYERS' ASSOCIATIONS

Employers, having at last realized that it was folly to attempt any longer to ignore organized labor, resolved to meet organization with organization. Efforts to this end began about the year 1900. The various branches of industry had had their trade organizations for the purpose of promoting the general interests of business and improving relations among themselves, but had not given especial attention to concerted action in dealing with labor unions. The National Association of Manufacturers was organized in 1896, but had given its attention largely to questions of governmental policy and to ways and means for the extension of trade in

foreign lands. It was not until the meeting at New Orleans in 1903 that the president of this association, Mr. D. M. Parry, sounded his famous call to arms for the organization of manufacturers to meet organized labor.

In the meantime employers' organizations sprang up in San Francisco, Chicago, Denver, Dayton, and elsewhere.

About this time the employer, realizing that the consumer was the balance of power between capital and labor, sought to enlist the consumers on his side and very largely succeeded in doing so through an organization known as the Citizens' Alliance. The organizations admitted non-producers to their membership and their shibboleth was the maintenance of law and order against the violence of trade unions. The tyrannical disposition and arbitrary methods of many unions having largely turned public sympathy to the employer, who was having a hard time keeping contracts and maintaining industry as a going concern, the ranks of the Citizens' Alliances filled rapidly, and with able business men to organize and lead them, they quickly became a powerful fighting force.

In the meantime an effort was made to federate these organizations on a national scale and D. M. Parry became president of the Citizens' Industrial Alliance, an organization intended to unify all these forces in the United States.

Mr. Parry and other men of his way of thinking denounced labor unions in unmeasured terms and the violence of their language was not approved by a large class of conservative manufacturers, who believed in organization and concerted action in dealing with labor unions, but deprecated the use of harsh terms which would further embitter capital and labor and render dealings between them still more difficult.

But events of recent occurrence were driving the employers to desperation. In Colorado a cage loaded with non-union miners fell 1,400 feet, apparently without cause, and although the coroner's jury, made up largely of union miners, laid the blame on the machinery and recommended more help for the engineer, others asserted that the catches had been provided for the hoist and the engineer had three helpers. The intimation was that a fiendish crime had been committed. The Citizens' Alliance of Idaho Springs, Colorado, was the result of an attempt to blow up the Sun and Moon mine, causing the death of a non-union miner. Members of the Citizens' Alliance took from jail 26 union leaders who had been arrested on suspicion of complicity in the crime and expelled them from the town where their homes were, with threats of lynching if they returned. The secretary of the miners' union, A. D. Olcott, who was acquitted of complicity in the explo-

sion, became the victim of boycott by the Citizens' Alliance and was forced out of one job after another, former friends refusing even to lend him a rope to sink a shaft, after the decree against him went out.

In May, 1904, at 2 o'clock in the morning, when 28 men, all but two of them non-union miners, were standing on the railway platform at the Independence mine, a large quantity of dynamite was exploded under the platform and 19 of the men were killed or wounded. Bodies, heads, arms, legs and ears flew in every direction and pieces of flesh were blown 500 feet. Examination showed that the dynamite was exploded by a pistol, the trigger of which was attached to a wire which ran 400 feet to a place of hiding for the man who committed the crime. This fiendish outrage was charged to union men and it was asserted that documents were found showing complicity of the miners' union. The feeling against the miners' union was so intense that the sheriff and other officers supposed to be in sympathy with it were forced to resign. The Citizens' Alliance acted as a vigilance committee and practically took charge of Teller County. The governor was induced to send troops to the scene and proclaim martial law. Adjutant-General Bell, in full sympathy with the Citizens' Alliance, attacked a group of 22 union miners, who were captured by two

companies of State troops after a brief resistance. Bell then hunted the remaining union miners like rabbits and captured or frightened away all in the county. Those captured were turned over to a committee of the Citizens' Alliance who investigated their cases and decided whether the prisoners should be deported or held for trial on the charge of complicity in the murders. Those not held for trial were marched over the hills and made to leave the county. As a rule they left the State.

In the latter part of June, Adjutant-General Bell was quoted by the Associated Press to the effect that he would expel all union miners from Colorado.

During the excitement following the explosion the owners of a Colorado mine employing union miners were forced by pressure to discharge their men. This for a time stopped work in the mine.

Thus violence was met with violence, boycott with boycott, ostracism with ostracism, terrorism with lynch law, and finally the series of anarchistic crimes and retaliations led to martial law and the complete abolition of liberty in property and person for the entire class of union miners.

Elsewhere there was not such extreme provocation and the use of violence by employers' associations or citizens' alliances was rare, but

they used freely the labor union weapons which they had so vehemently denounced. Lockouts, boycotts and ostracisms were among the means employed to fight labor unions or employers dealing with them in San Francisco, Denver and Chicago. Chicago had extreme provocation in the stopping of funerals by union teamsters, and the employers' association of that city was strong and vigorous. When the laundry workers' union struck nine laundries, the employers' association, under Mr. Job, organized the laundries and caused a lockout in practically all the establishments. The wage-fund being cut off, the laundry workers were impoverished and laundries suffered severely. Finally the open shop was established, but the workers got an increase of wages.

Similar contests took place in other industries, with the employers' association backing the employers. The general result was to establish the open shop.

The striking similarity in fighting methods of employers and laborers when organized is seen in these contests. In San Francisco there were some meat dealers who wished to continue their agreement with labor unions and use the union label. Through the influence of the employers' association, the wholesale meat dealers shut off supplies from the independent dealers and refused to sell them meat until they took

union labels out of their windows and joined in the fight. In some cases wholesalers refused to supply restaurant keepers who insisted on dealing with the unions.

The picketing of labor unions, which has been so much denounced, finds its counterpart in the use of detectives by employers' associations and "scab" labor has lived to see "scab" employers boycotted and forced into line by the employers' union. Union cards have been used by the Citizens' Alliance of Denver.

This curious similarity of the fighting methods of labor and capital has another remarkable manifestation in the recent use which labor has made of "government by injunction." This oft-denounced weapon of capital was used by labor unions in Denver and Omaha against the Citizens' Alliance and the aid of the courts was asked by labor unions during the butchers' strike at Chicago in July, 1904.

The times seem to have demanded extreme measures by capital to meet the extreme measures of labor and teach it a lesson. The employers, flushed with success and entrenched behind compact organizations, have now to learn the same lesson.

Allusion has been made to a conservative class of employers, who organized for defense against organized labor, but prefer pacific methods. Notable among these are the stove

founders, the Illinois coal operators, the newspaper publishers, the book and job printers under the name of Typothetae, and the Chicago Metal Trades Association.

The stove founders, as individual concerns, formerly had to deal with moulders' unions federated in a national organization. A strike at a single foundry was supported by all the union moulders in the United States, and could be sustained for a long time. The striking moulders received pay from the treasury of their national organization.

In such a contest the single foundry was at a great disadvantage. Employers saw that the only way to equalize the contest with a national labor union was to organize the founders on as large a scale. This plan was adopted and proved to be effective. Now the stove moulders, if they strike at all, must strike all along the line. Once a year a committee of founders meets a committee of moulders to fix a scale of pay for the ensuing twelve months. If they fail to agree and a strike results, it is a general strike. All the moulders are out of work and there is no immense fighting fund to draw on. If there is one, it soon vanishes. Meantime the foundries are paralyzed and the employers suffer.

Under these circumstances, with both sides thoroughly organized, both are slow to provoke a contest. The result is increasing conservatism

and a better understanding between capital and labor.

Once a year the Illinois coal operators meet to fix a scale of prices and a similar course is pursued by the coal miners and the operators of the Birmingham region.

Mr. Ray Stannard Baker published in *McClure's Magazine* for July, 1904, a notable article on the contest between organized capital and organized labor and a number of the facts mentioned in this chapter concerning the Colorado contest and the employers' associations are recounted in detail in that article.

CHAPTER XIV

THE STRUGGLE OF CLASSES

Labor and capital will get together, just as surely as co-operation succeeds conflict in every phase of human endeavor.

Labor and capital, shooting at each other, hit the consumer. The consumer is on the firing line without a gun.

UP to this time we have dealt with the workings of industrial combinations in a simple form. We have been considering combinations of capital, without regard to labor, because they all employ labor and do not treat it as a partner. The workingman does his work and draws his pay and gives himself no especial concern about the success of the business so long as wages, hours and other conditions are satisfactory.

Now comes a new kind of combination in which labor plays an important part. Organized labor has begun to league itself with organized capital. This adds a new factor to the problem and contributes a new element of strength to the institution which is revolutionizing industry. The world has concerned itself a great deal about the abuse of power by organized labor and unified capital, but no one seems to have lost any sleep about the danger that is sure to arise from the well-nigh irresisti-

ble power which the union of these organized classes will confer upon the leader who is powerful enough and wise enough to command such an army of industry.

Following is an extract from a Chicago dispatch to the Associated Press, on June 15, 1905:

"John C. Driscoll was made to-day the chief witness before the grand jury and recited what he called the history of the dealings between employers and union labor. Driscoll told how the coal teamsters and coal team owners had made the first joint trade agreement, which provided that the owners should employ only members of the coal teamsters' union, and that the members of the union should work for no employer not a member of the coal team owners' association. The effect of this arrangement, the witness declared, was to force every coal wagon owner into the coal team owners' association and every coal wagon driver into the teamsters' union. The owners are behind this provision that barred union men from working for men not members of the association, prevented union drivers from driving independent coal wagons, and raised the cartage rates of coal from 30 to 50 cents a ton for short hauls and to as high as \$1 a ton for longer hauls."

Similar alliances have been made between employers' combinations and the trades unions of

New York, Chicago, Detroit, St. Louis, Denver, Atlanta and other cities.

The United States Industrial Commission reports a case in which the United States Government was mulcted of a large sum in the construction of a public building at Chicago. Contractors who were members of the double combination of builders and trade unions put in bids for the construction of the building and the award went to the lowest bidder. Apparently everything was regular, but subsequent events made dissension in the combination and one member turned State's evidence, so to speak, on the others. Evidence before the commission showed that the members of the contractors' combination met in secret and submitted to each other the estimates they had made on the Government building. The man who made the lowest estimate was conceded to have won and he was accorded the right to put in the lowest bid and secure the contract, but was required to add twenty per cent. to his original estimate, and this extra sum received from the Government was divided among the other contractors in the combination.

An attempt to mulct the Methodist Book Concern in the same manner was discovered. The architect rejected the bids as too high and members of the combination became restless because they believed the restrictions that bound them

were injuring their business. One member put in a straight bid. This led to quarrels, the result of which was the discovery of the methods by which the United States Government had been held up.

A curious story is told of a builders' combination, said to have existed in another city, which adopted the average price as the one entitled to secure the contract. Builders in the combination met secretly and submitted their bids to each other before bidding for the investor. All the estimates were added together and the average was taken. The bid nearest the average was the winner and the man who made it was allowed to put in the lowest bid to the investor. His lowest bid was the average, plus 20 per cent. to be divided among the other bidders.

Since the Industrial Commission completed its report New York City has suffered severely from a combination of this kind in the building trades. During the year 1904 the newspapers of the metropolis printed a great deal of evidence going to show that the cost of building was arbitrarily increased to a very great extent by the exclusive combinations of building contractors and trades unions. In many cases, reported by the Industrial Commission, the double combinations were soon broken up by internal dissensions, but new combinations of the

same kind keep springing up. There is something persistent in this new institution, just as there is in the simpler form of combination among capitalists, and it will not down at the bidding of the courts. In Chicago, where Mr. Driscoll reports such an exclusive alliance between the employers and unions of the teaming interests, there is a court decision little more than a year old, which holds such combinations to be conspiracies in restraint of trade and declares the guilty parties to be punishable also under the criminal law.

As yet combinations of capital and labor are not very numerous, but there is every indication that they will be. Nothing is more certain than that organized labor and unified capital will get together. Peace follows war and co-operation succeeds conflict everywhere.

There is a general tendency to joint agreements between organized labor and organized capital. It is a little slow, but progress is steady in this direction.

Finally a stage is reached where employer and wage worker agree upon the scale of wages, the hours and the conditions of labor, for a year, or a term of years. At this point it dawns on them that they have the power to fix a price which the consumer must pay. Their primary object is to fix a price that will yield a living wage and a fair return to capital. Having

learned how to do this, they seem to be masters of the situation, and the temptation is strong to abuse the power to raise wages and profits, which the consumer must pay. The consumer is unorganized, and though he complains, he has to submit. Where unified capital and unified labor co-operate in the control of production, he is powerless to resist—as powerless as an unorganized mob would be between two armies that are organized like pieces of machinery and directed by master minds.

At this point it will occur to the reader to inquire whether the object of the regulation of production which has been held to be essential to continuous prosperity, is not to secure such prices as will afford a fair profit to capital and a living wage to labor. What objection, then, can be made to a combination of capital and labor for this purpose? The objection is not to the combination *per se*, or to fair prices. It is to the abuse of the power so secured. This abuse may consist in an interference with the right of other men to labor or to employ their capital as they see fit, or it may consist in raising the price of the combination's product above the fair profit and the living wage. Three parties have equities in the price—the capitalist and the laborer who produce the article, and the consumer who pays for it. If the consumer does not pay enough, the capitalist and the

laborer suffer. If they exact too much, the consumer suffers.

I am aware that the immediate causes which fix the price of an article are supply and demand, and some economists go so far as to say that cost of production has nothing to do with price. But every one knows that if the price is below the cost of production, labor and capital will be diverted into other industries, the supply will be cut down and the price will go up; so it is true in the long run that cost of production is the determining factor which fixes the price. We may then safely hold that the price contains three equities—one for labor, one for capital and one for the consumer. As the price will not remain long below the cost of production, because capital and labor will seek other employment, so price will not remain above the sum which the consumer can afford to pay, because he will either use less of the article or find a substitute and the demand will fall off, with the inevitable result of a lower price.

These processes of adjusting the price are slow, so slow that some people overlook them altogether, and while this slow adjustment is pending there is much loss and suffering on the part of producer or consumer, according as the price is too low or too high.

We have seen the cause of low prices, and the regulation of production was found to be the

remedy for that condition. We are confronted here with the opposite status when prices are too high and kept so by the arbitrary action of a new kind of combination—labor and capital federated. Combinations of capital have done the same thing, but with organized labor added to the compact, the power to demand its own price is immensely increased, and the danger from abuse of power immeasurably heightened. As a matter of fact, such double combinations have gone to this extreme in most cases that have come to notice.

The producer with absolute power to fix the price of his product will sooner or later abuse it, and the consumer with the same power, will do the same thing. What society needs and will eventually provide is a check on both.

CHAPTER XV

ORGANIZATION OF THE CONSUMER

The consumer will be forced to organize in self-defense, as labor and capital have been.

Government will not do its duty without organization behind it.

OF 29 millions engaged in gainful occupations in this country at the last census, 7 millions were in manufactures and transportation, which are more or less controlled by organizations of capital and labor. The other 22 millions belong to classes little organized. About half are farmers and the others are engaged in such useful pursuits as merchandise, banking, insurance, the professions, and domestic or personal service.

There is some organization among bankers, insurance men and merchants, but as such, and not as consumers. All of the 22 millions, including the farmers, are on the consumer's side of manufactured goods and on the consumer's side of transportation, which adds two billions a year to the cost of the commodities consumed in this country.

In the last analysis, every man is a consumer of most things, and if a producer at all, is a producer of but few articles.

It is clear, therefore, that the consumer oc-

cupies the strongest position of all the great economic groups. He has always some choice as to the articles he can consume, and in a comparatively short time he can call new sources of supply into existence. The redundancy of capital and the surplus labor stand ready at all times to serve him, and never more so than when an attempt has been made to practice extortion, or when the warring forces of labor and capital are locked in deadly conflict and production ceases. These conditions make organization easy for the consumer.

The manufacturer says to the merchant, "What do you care whether prices are high or low, so long as you make your percentage of profit? The higher the price the more your percentage will yield."

The railroad traffic man says to the merchant: "What do you care for lower rates, so long as your competitor pays the same rate? What interest have you in cutting down our revenue when it does not add a penny to your profit?"

In the meantime where does the consumer appear?

When capital and labor are at war, the consumer is between the two fires, as we saw during the anthracite coal strike. While operators and miners contended with each other, the consumer shivered. When at length a settlement was made, the price of coal was increased and

the consumer was called upon to pay the difference. He is the victim in their warfare and not less unfortunate when they make peace.

The consumer then must organize or suffer, and he will not suffer long before he begins to look for the remedy. The object lesson is before him, and he has already shown on several occasions that he is an apt pupil.

Once in a while an extreme case like the coal famine arouses the mass of consumers to a sense of their danger. Then we hear conservative men and newspapers demanding that the Government take over the mines and the railroads.

Public opinion moves with incredible swiftness in the presence of danger, and if a better remedy is not agreed upon sooner, we may come to Government ownership; but there is at hand a simple and effective remedy that involves no such risk as State socialism. It is in the hands of the people, who can quickly apply it without any help from the Government. This remedy is organization.

The fate of the middle class, therefore, is in its own hands, so far as the abuse of power by the organized forces of capital and labor is concerned. Organization is the key to the situation.

I am not blind to the fact that organization means agitation, and heat and conflict. Neither do I conceal from myself the other disagreeable

consequences of such a movement. In its early stages, especially, it will be hampered and beset by demagogues, who will inflame the minds of one class against another. These things must needs be. They are the unavoidable accompaniments of every great movement, but the movement itself is of far greater consequence, and is to be taken seriously.

But in its finality, organization means peace. Organized government did not come but through fire and sword, yet at last it is the very essence of order, stability and peace. The stability of industry is coming gradually through a similar process.

Now let us see the effect of organization on society as a whole.

The groups engaged in production, distribution and exchange are organized and the organization of the consumer will complete the economic framework of the body politic. Now the body politic is not a fiction of the imagination. It is just as real as bodies of flesh and blood. Flesh and blood are its component parts. Men are the units of which it is composed and their destiny is bound up with the fate of the whole. If men degenerate the body politic falls into decay, and if the whole is in disorder the evil disease afflicts the human beings that compose it. We have but to mention war and famine to realize that this is vitally true. And since it

has been shown by all experience that men or classes that have power will oppress the men or the classes that have it not, the well-being of society as a whole and in all its parts requires protection for every class. Human experience has demonstrated times without number that such protection is best assured by organization, and history shows that the organized classes have not only freed themselves from oppression, but have steadily risen in the scale of intelligence, efficiency and morality. With organization comes not only the conflict that makes men, but the contact, conference and attrition of mind that educate and uplift the race.

The body politic is a great organism that works well or ill in proportion as its several parts are organized and developed for the performance of their functions.

Government rests upon the framework of industry. Production gives it food and commerce is its blood, but the nerves of politics act and react on all the organs of business.

So long as society was a mass of people without classification, government was a loose and incoherent thing. Its checks and balances were feeble. Gradually stratification adds strength, and as the stratification advances and the segregated classes are organized, the checks and balances of power become strong, self-acting and efficient.

CHAPTER XVI.

EVILS AND REMEDIES.

The remedy can not be administered against the will of the patient. Public opinion is an indispensable factor.

WHEN the elements composing the population have been organized separately, they will be in position to co-operate actively and effectively in all matters of common interest, whether for defense against impending danger or for the upbuilding of society.

This work of co-operation is impracticable where there is no articulation of the classes, but when they have been severally organized and joined in one frame the action of society as a whole is made easy and certain.

Under these conditions it will be a far more difficult matter to defy public sentiment and disregard the law.

The organization of the consumer completes the articulation of society and with it we may look for results.

Let us see the work which organization is called upon to perform. In order to realize this we will sum up the conditions briefly.

The world's population is fast approaching the time when it will press hard upon subsistence if the present rate of production is not

vastly increased. Our methods are so wasteful that we throw away in this country by reckless production enough to build homes for a million families a year.

To stop this awful waste the necessity of the times has created the trust, now unfit for its task, but destined to be made fit by adversity for the regulation of production more nearly in accordance with the demands of consumption.

With this machinery have come a new danger and a new problem, the danger of great power abused, and the problem of controlling it.

We have seen competition set aside by natural monopolies like railroads which have built up other monopolies by their discrimination.

To this dangerous power of discrimination is added the immense power of patronage, through community of ownership, as dangerous as the boycott, but not so easily reached by law.

In addition to all this, there has appeared, during the past decade, the most irresistible and the most dangerous form of combination ever invented, the federation of combined capital with organized labor, to the exclusion of capital and labor not in their combinations.

Another danger is the peril to the investor from the flotation of watered stocks, by the great industrial combinations. These stocks are put on the market at inflated prices and sold to the public. After a few years of over-production a dividend is passed and the unfortunate

purchaser sees his property shrink to less than half the sum he paid for it. The common and preferred stock of the United States Steel Corporation shrank 470 millions in three years.

Stocks are inflated like sponges until they are full of water, and in a short time the water is squeezed out. Afterward the process of expansion begins again.

The ordinary investor can not understand the process, because he does not know what the controlling spirits are doing or intend to do. Naturally he gets squeezed.

A consequence, perhaps worse than the loss to individual stockholders, is the effect on the public. Having no confidence in the stability of industrial stocks, they keep out of them, and thus the masses are divorced from the interest in the productive power of the country which they formerly had.

These conditions are aggravated when corruption is discovered in a great institution like the Equitable Life Assurance Society, which had enjoyed the public confidence for years and had come to be regarded as one of the pillars of finance. What has been discovered and confirmed by official investigation in one case leads to the undefined but all-pervading fear that the leaven of graft extends to other great institutions of the same kind. This staggering blow to the public confidence at a time when the expansion of credit is fifty per cent. greater in pro-

portion to the stock of money in the country, than it was seven years ago, despite the enormous increase of gold, has created apprehension which will take a general investigation of fiduciary institutions to allay. This shock to confidence, if not warded off by investigation, is calculated to handicap the vast machinery of credit, which, under the modern system of banking and settlement by check, enables the country to make every dollar turn fifty dollars worth of trades in a year. After the panic of 1893 we saw credits contracted to a little more than half this ratio, and thus, for several years, the efficiency of money, which means the financial power of the country, was almost divided by two.

Confronted by these grave dangers, what is the wise course for the country to pursue?

The following measures are suggested.

For the protection of investors:

1. A general investigation and house cleaning of the great fiduciary institutions with punishment for the guilty.

2. Reform of corporation law to check fraud and over-capitalization in organizing companies.

3. Criminal laws that will reach the corporation grafter.

4. Compulsory audit by prescribed standard for corporations doing interstate business or offering stock to investors—results to be published.

5. Compulsory publication of the kind and quantity of stock and bonds held by banks and fiduciary institutions.

For the protection of consumers:

1. Organization of consumers and shippers.

2. Government control of natural monopolies, beginning with regulation of railway rates.

3. Publicity of the earnings and expenses of natural monopolies, with an inspection of their accounts by Government experts who shall be bound by their oaths to report illegal transactions, especially discrimination, or combination with other natural monopolies.

As to the measures for the protection of the investor, it is immensely important that whatever can be done to satisfy the public concerning its cherished fiduciary institutions, be done with as little delay as possible. Loss of confidence creates an atmosphere favorable to panic and in this matter no risk should be taken which can be avoided.

The blazing light of publicity must be turned upon every spot where suspicion rests and the public interest demands the merciless exposure of wrong doing in high places. The first step to reform is for the country to vomit up the poison of graft which has sickened it.

The punishment of the guilty is necessary to make reform real and lasting. The tone of public morals has been lowered by the respectability of graft and it is necessary to make it dangerous and disreputable in order to rescue the country from its debasing influence.

The eradication of graft will minimize the dangerous power of patronage which has been referred to in a previous chapter. In that place the statement was made that it is impossible to prevent a group of men from patronizing their

friends in business. The nature of the corporation, however, sets some limits to this power; a majority can not use the property of a minority to feather their own nests, without violating a principle which is recognized in the statutes that require municipal corporations to buy of the lowest bidder, after due notice to the public, and forbid officials dealing with themselves or their partners. Public opinion, especially since the exposure of graft in the management of the Equitable Life Assurance Society, will demand that the municipal laws on this subject be extended to business corporations.

It is, of course, possible to deliver patronage under legal forms, but they check its baneful effects and hamper those who would abuse the power it confers.

Other things are done by corporations which their stockholders would not do on their own account. Many a man draws dividends that result from iniquitous transactions and he satisfies his conscience by the reflection that he is only a minority stockholder and can not control. As a matter of fact such men make no effort to control and they do not hesitate to buy the stock of a corporation, some of whose acts they do not undertake to defend.

Corporation reform has long been needed in the United States. The limited liability of shareholders has led to abuses which make industrial stocks the outlaws of the market.

Investigation is needed to guide the framers of the laws that shall be passed.

The question how far the States and how far the Federal Government shall control is one that requires great care and legal ability, but it offers no insuperable obstacle. Public policy demands this reform in order that public confidence in corporate industry may be restored. Graft and over-capitalization are the chief evils to be eradicated.

In suggesting measures to protect the consumer, organization has been put before Government regulation of natural monopolies, because Government will not act efficiently in this matter until there is a solidly organized body of public opinion behind it. We have a representative Government and we can not expect our representatives to do a thing in spite of determined and organized opposition, unless it is made clear to them that a wider circle and a more powerful organization demand it.

The consumer has an overwhelming majority in any case between himself and the producer, but the consumer, as such, is practically unorganized. Despite his numbers he is helpless. Capital and labor here referred to are the producers. They also include those engaged in transportation, for the consumer pays the freight. As regards both, the consumer must organize or suffer.

In this country comparatively little has been

done by consumers on this line. Grain farmers in the West have succeeded with a co-operative elevator system, that protected them against charges they thought were onerous, which had been made by the established elevator companies. In the Southern States, the Farmers' Alliance, before it went into politics, did a great deal to lift its members out of debt and rescue them from the clutches of the supply merchant. In Georgia, a State where nearly all farmers were debt-ridden twenty years ago, a majority of the deposits in the 240 State banks are owned by farmers. The first great advance of the farmers in that State toward financial independence was due to the co-operative work of the Farmers' Alliance between 1888 and 1892. This work was felt all over the Cotton States and the better prices for cotton during the past few years, even in the face of large crops, was due partly to the fact that the farmers were financially able to hold the cotton on their farms and check deliveries. This was effected largely through an organization called the Southern Cotton Association, which influenced planters to cut down the acreage of the new crop, while they held several million bales off the market. Thus, practically, they reduced the present supply and actually cut off the future supply. This double check on supply raised the price to ten cents, although the price of the same crop, when its magnitude first be-

came known went down to six and a half cents.

In England the organization of consumers on co-operative plans has been going on for a hundred years. It went through half a century of failure before its great career of success began. The dogged perseverance of the English and Scotch co-operators has resulted in success and far beyond the dreams of their pioneers. Nearly two million families are interested in the co-operative societies, which include wholesale and retail stores and factories. Their capital, which began with twopenny-a-week savings, has reached the enormous total of 117 millions, the sales 400 millions, and their profits, 45 millions.

Although building and loan associations and co-operative banks have had large success in this country, little has been done in the organization of consumers to supply their own wants by merchandise or manufacturing.

But the genius of the American people has been quick to assert itself wherever organization was necessary for self-defense. The trades unions are a wonderful example of the capacity of the masses for organization, and the loyalty of the working man to his organization in the face of hardships and want is a splendid tribute to his manhood. The national extent of these organizations has given opportunity for the development of a high order of ability which we have seen in such men as John Mitchell. The occasional appearance of grafters among the la-

bor leaders has called attention to the fact that there is a very large and influential class of them who are unpurchasable.

American business men of the employing class were rather slow to begin a counter-organization to protect themselves against the sometimes arbitrary action of organized labor, but the capacity of the American for organization was splendidly manifested in the employers' associations which sprang up as if by magic wherever they were needed.

The ability and shrewdness of the American manufacturer as an organizer was further manifested in the skill with which he marshaled thousands of consumers under his banner. In order to do this, independent organizations called by such names as "Citizens' Alliance," "Law and Order League," etc., were created.

The lesson which the producer thus gave the consumer in the practical work of organization has not been lost. When the consumer comes to organize he will know how, and having created the machinery, he will understand its use.

Consumers' leagues have not done much in this country, because their objects have been limited and the time was not ripe for a great organization of this kind. Heretofore there has been no general demand for protection against combinations of producers, but the swift

movement of events and the tremendous development of combination among natural monopolies and collateral interests are fast carrying us to the point where the consumers will be forced to organize in self-defense. The discriminations of railroads and the destructive competition of monopolies fostered by railroads have made it impossible to do business in certain towns and in certain proscribed industries. All over the country we see freight bureaus and shippers' associations which have been created by the necessity of the situation. The State and Federal courts are constantly appealed to for protection to shippers. This litigation, in almost every case, is instituted by organizations which employ lawyers and pay the expenses.

In such organizations of shippers, manufacturers and merchants work side by side. Producer and consumer learn the lesson of organization and defense together. Such lessons once learned are never forgotten.

We have a situation in which necessity forces the organization of the consumer and one in which he is being trained to organization. The result is only a question of time, and from present indications, the time will not be long. There is a general and determined effort among producers to maintain combination prices and in many cases the prices are fixed regardless of supply and demand.

This will force the consumer to act.

Given the organization of the consumer, we may rest assured that the necessary remedies for the abuse of power by the great corporations will be applied. Government never fails to act for the protection of a majority when the majority is organized and demands protection.

There are some who think leaders will not be forthcoming with sufficient ability to manage such organizations, but history runs to the contrary. Great ability comes with great emergencies. In the business of co-operation, which was fought bitterly in England, the working men showed surprising shrewdness and capacity. More than that, they succeeded.

CHAPTER XVII.

THE FINAL MERGING OF CLASSES

After segregation, integration and interdependence—this is the real remedy for caste.

WE may deplore the conditions which make the segregation of the classes inevitable, but we gain nothing by refusing to look the facts in the face. Until we do recognize a fact it is impossible to see anything behind it, and further progress in knowledge of the development is barred. While we thus stand blindfolded by our own obstinacy, the facts continue to develop and the world moves on. Our misfortune in this case is that we do not move with the current of progress and we waste our energies trying to swim against the stream.

When we frankly look the facts in the face we shall find that they have much more to say to us than appears on the surface. The segregation and counter-organization of the classes is a case in point.

The counter-organization of capital and labor was deplored, but it came because it was necessary. Now the counter-organization of consumers as against producers is deplored, but it will just as certainly come. There must be a separate organization before a final balance

can be struck between the conflicting interests.

Now mark the result. After segregation, integration.

In the following chapter the tendency toward an interlocking, interlacing and blending of the interests of owners, employees and customers will be traced. We have heard much of mergers, but this is the great merger in which everybody who does anything useful to society will be interested. This is the real antidote for caste. For the study of this subject in the next chapter the author asks the thoughtful attention of the reader.

The socialistic idea is general, even among well-informed economists, that the unification of industry will force the government to take over the property and functions of industry. That this does not follow is the writer's contention, and just here is the parting of the ways between socialism and individualism. Up to this point they can agree on most things, but when it comes to the way of escape for mankind from industrial despotism on the one hand and socialism on the other, our teachers very strangely leave the socialist to blaze out the path. The socialist is ready to do so. He has his remedy, which is socialism, but I am persuaded that there is a more excellent way. Let us not go blindfolded into the camp of the socialists because the path is difficult and the way

obscure. Let us rather be willing to endure the hardships of pioneers and find our own way through this new territory.

CHAPTER XVIII

EFFECTS OF COMBINATION ON THE INDIVIDUAL

The larger the machine the better the man that runs it—and the more indispensable.

THERE is much concern about the effect of combination on the individual. The initiative of the small dealer or manufacturer is lost when his business is merged or supplanted, and there is a frequently expressed fear that there will be no opportunity under the new system for young men to get a foothold in life.

The idea is that combinations have reached such a colossal size, requiring such vast capital, that the boy who seeks to make his way by hard work and economy can never do much. His little hoard will not have any appreciable value as a working capital where millions are required to establish a plant and keep the business going.

This theory is both plausible and depressing, but somehow boys keep coming to the front. It has been a great while since Andrew Carnegie's business was done in millions, but the boy Schwab, who had no money, found a place and a fortune in that establishment. This is the most notable case in recent years, but there were many others in that establishment, and

the case of Andrew Carnegie himself is even more remarkable for his time. There are thousands of such cases, and they seem to grow more numerous rather than otherwise.

There will never be a time when capital can secure a satisfactory return without the services of men.

Railways and other large corporations do their business and earn their profits through the exertions and the brains of salaried men who have worked their way up from the beginning. The capitalists who own the stocks dare not dispense with such men. They would be helpless without them. The tendency is to increase the compensation of such men, especially of the rare type which is equal to large tasks.

Behold the event that comes to the salaried man of large capacity. Capital is constantly seeking new investments and when it can not find them it makes them by starting new enterprises. Those enterprises can not succeed without good men to manage them and a new concern can not take a man from an established institution without offering him special inducements. These inducements often include both a liberal salary and a share in the profits.

This policy, arising out of the necessities of new enterprises, has its effect on older concerns, who see the danger of losing the men who make their profits, and, if they are wise, fortify themselves against such attacks by a liberal policy

toward salaried men. This was a striking feature of Mr. Carnegie's policy. He grouped around him scores of bright young men who did much for the success of the company.

As profits are more certain where business is conducted by large corporations with ample capital, prospects of such contingent interests to salaried men are improved. While the rate of dividends may not be high, there will be fewer failures, and the average result will be good.

The chance for laboring men who are controlled by unions is not so good because they do not have the freedom of salaried men. For that reason they seldom rise to important positions in the business world.

This is not due to the fact that they are working men, for salaried men, especially in their young days, work just as hard, if not harder, than members of trades unions. The real cause is the rule that prevents one member of a union from taking precedence of another, in position or pay when he has exceptional merit. This effect chills enterprise and fetters ability. If the trades unions become sufficiently enlightened, they may throw off these fetters without losing the benefits of organization. When they do, men will rise from their ranks to positions of wealth and influence as frequently as they do from the ranks of salaried men.

On this subject it is interesting to read the

testimony of Mr. Schwab, who entered Andrew Carnegie's service an obscure boy without money or influential friends, when the great ironmaster was already doing a business of millions. Mr. Schwab says in an article contributed to the *North American Review*:

"To the working man the combination offers the most feasible scheme of industrial co-operation ever presented. Without waiting for any one's invitation, he may secure a partnership in the combination for which he works by investing his savings in the open market in the stock of the concern."

He adds that the stock of the close corporations which preceded the trusts was not so easy to buy, but now the ownership in great, consolidated enterprises has become tremendously enlarged and stockholders are increased in number a hundredfold.

It is necessary here to take cognizance of the fact that the plan of buying stock in the open market has some disadvantages in the present state of corporations. So many of them have watered stock, it fluctuates so violently and receiverships and fraud are so common that the masses, who have no inside information, naturally, and wisely refrain from investing the immense sums they have in savings banks. In the course of time this difficulty will be overcome by the reform of corporation finance. Then the masses will invest freely in the industrial stocks.

The United States Steel Corporation did sell stock to some of its employees at a figure considerably under the market price. Afterward the price of shares in the open market went far below the price the employees were paying. Since that time the market price recovered and again went above the price paid by the employees for preferred stock.

"For the exceptional worker," says Mr. Schwab, "the advantages are even more manifest. In the first place his pay is larger and will continue to grow larger; and his services will, with each succeeding year be more largely sought for. Great enterprises depend to a much more pronounced degree on high-grade skill than do smaller ones. They must continually create new trade in order to live and grow. They can only do this by having and holding in their service the best men. As the advantages they get out of such men are scattered over a much wider field, they can naturally afford to pay better than the concern whose sphere is limited."

Referring to the poor chance such men had to get into a partnership or a close corporation, except in the case of unusually liberal employers, Mr. Schwab adds:

"It remained for the system of combination to make the scheme general and to open up for young men of brains opportunities that heretofore have been closed to them."

The testimony on this subject is not all one way, but Mr. Schwab seems to have reason and business experience on his side. It is well known that Andrew Carnegie pursued this policy and believed in it, and up to the formation of the steel trust his was the most important industrial corporation in America.

Labor as a mass is rising in power and its share in the fruits of toil is increasing.

The census shows the average earnings of labor in manufacturing and mechanical pursuits in the United States to have been as follows in the last three decennial years:

AVERAGE EARNINGS OF INDUSTRIAL LABOR.

(Men, Women and Children.)

1880	\$346.91
1890	444.83
1900	437.96

The slight decrease in the 1900 average is due to reductions in the Southern, Middle and Pacific States. Elsewhere there were increases.

There has been a very general increase in wages since the census year on railroads and among manufacturers. It is hardly to be doubted that there is a higher wage level now than there was in 1890.

Fortunes are still made by speculation and by defrauding the public of its just share in the returns of public utilities, but the time is coming when the unearned increment will go to the public instead of enriching franchise grabbers.

The work of education in that line has begun and will inevitably bear fruit.

In the meantime the mass of labor forges its way step by step. The progress has been slow, but in the last quarter century its results are important, as regards both wages and labor's share in the control of industry. Little by little capital is being driven to concede labor a voice in determining the conditions under which it works and the amount of its compensation.

In other words, the control of industry is passing inch by inch from the few to the many. Democracy's age-long struggle in politics is made over again in industry.

There is also a tendency of the masses to rise to competence. Of nine billions in American banks, three billions are in savings banks. One-third of the quick capital of the country belongs to the humblest of all capitalists. This vast sum belongs to the working people and the middle class. These two classes make up the bone and sinew of the country. The middle class also has a great deal deposited in other banks. All the farmers not among the very poor belong to the middle class. In some States the farmers own half the bank deposits. This statement is made for Georgia by Robert E. Parke, Treasurer and Ex-Officio Bank Examiner.

If we take the deposits by the middle class and the working people in savings banks and other banks, we may safely assume that they make half the total of all bank deposits in the United States.

They have half the transferable wealth of the country and of the more or less fixed capital they own an immense share. While the larger factories are owned principally by capitalists, there is a considerable element in manufactures known as "hand trades" which belongs to the masses. The census gives the total value of these products as \$1,183,615,478, which is 9.1 per cent. of the whole manufactured product of the country.

To the middle and lower classes we may assign at present almost the whole farm property of the United States.

Then there are the homes of the people. Unfortunately there is a tendency toward renting, but at present 35 per cent. of the people in the towns and cities own their homes.

On the farm sixty-five per cent. own homes.

The masses invest little in the stocks of railways and manufacturing plants because they lack faith in the management and the stability of business. When combination becomes conservative and when it has learned to regulate production, industrial corporations will be

steady earners of dividends. When the further safeguard of publicity in corporation accounts is added, the masses will begin to invest in stocks and bonds of railways and factories. The three billions in savings banks, invested in railroad stocks, would control most of the mileage of the United States. The hoarding of these investments in banks is unwholesome, and the transfer of it to industry will work a revolution in public sentiment. No politician would be heard crying, "Destroy the Trusts" if he knew that half the voters had their savings invested in the stock or bonds of those corporations.

In his book on Trust Finance, Dr. Edward S. Meade shows that when speculative promotion is eliminated by law, industrial securities will be issued on an investment basis and will be sought after by the investing public when they are deserted by speculators. At present the suspicion of industrial stocks limits the supply of desirable investments, and the supply being small in proportion to the demand, the price of available investments rises and the net return to the investor falls. Thus nine leading railway stocks which yielded an average return of 7.9 per cent. on the market price in 1872, only gave a return of 3.3 per cent. in 1901. He mentions trust stocks amounting to two billions which are not available for investment because they are

organized on a speculative basis. These securities on an investment basis, he thinks, would capitalize at \$775,000,000, yielding five per cent. dividends after passing half the net earnings to surplus reserve. When the speculative industrial stocks have been reduced to a basis of sound finance they will swell the volume of investment securities and bring the price down. This will raise the net return on conservative investments and make them more tempting to the public from the rate of return as well as from considerations of security. The seven millions of depositors in savings banks who are content with three to four per cent. interest, will transfer to industrial stocks a large part of the three billions they have hoarded when they become convinced that manufacturing corporations paying five per cent. are as honestly financed and as wisely managed as the savings banks.

Thrift will increase with a larger average return and the capital of the middle classes will grow even more rapidly than it does now if the people feel sure of five per cent. where they get three and one-half.

The law guards jealously the savings of the masses in the banks and it will guard them with equal jealousy when invested in the productive industries. The increase of stockholders of this class will be an element of safety to the corporations, because laws will be strict in proportion

as the investors are humble and inexperienced. The increase of stockholders will add another element of safety in the quietus it will put upon the mischievous activity of anti-corporation politicians.

Organized labor will be more conservative in attacking corporations when it comes to pass that working men are largely interested in the profits. Democracy will successfully attack the problem of control from two opposite directions at the same time, on the one side through collective agreements between labor and capital, and on the other through ownership of stock.

In spite of this capitalists will find a more comfortable atmosphere than they do now. They will have to defer something to thousands of small stockholders, but organized labor will have to do the same thing. There will be less anarchy in industry; less violence and duress by labor unions and employers' associations.

Little by little the wage-earners will become stockholders. Then labor and capital will largely be one. Wage-earners own the bulk of savings-bank deposits. Through organization they could place their savings in large blocks of stock, which eventually would become the balance of power. If this is considered visionary, it must be remembered that savings banks now invest their money in securities. Evolution would naturally make the investment direct,

with the incidental benefits of control. The only obstacle is lack of business capacity on the part of wage-earners. This obstacle would be removed if their dead-level plan were abandoned.

The fact that wage-earners have native business ability which develops with experience and rises to the height of great affairs is fully demonstrated by the history of co-operation in England and Scotland, where concerns doing an immense business are ably and successfully managed by working men.

Those who conclude that combination leaves no escape from state socialism have not begun to fathom the possibilities of industrial democracy. The popularization of control in industry will come about naturally, without sudden changes, but eventually the sum of the change will be radical. It would be startling to us, bred under the old regime, if the veil of the future could be torn away, revealing a republic of industry composed of federated industries, each with local self-government, but all leagued together for certain general purposes.

The term *republic of industry* is used with regard to the control of industry only—not in a political sense. The effect of these changes on the forms of government is a separate subject.

These generalizations have been built up little by little on the facts presented in this book and on many others not brought within the compass

of so small a work. The facts will not be seriously questioned, but the generalizations may not be accepted so easily. The mind is so constituted that it does not take readily to radical changes. Still, change has been the invariable rule in the evolution of society. It is a far cry from feudalism to twentieth-century civilization. Sir Knight would have been dazed and dumbfounded if he had been picked up and dropped into a world like this. Nevertheless, he could not prevent the change that has come and no one regrets it. Very likely in the era I have pictured there will be as little regret for the progress beyond present conditions.

CHAPTER XIX

THE LIFT OF THRIFT

It is self-help which makes the man—William E. Gladstone.

THE nineteenth century witnessed a world-wide uplift of the toiling masses by thrift. In the last fifty years the poor and helpless have learned how to help themselves. Without money or credit, they have amassed money by the billion and their credit is equal to the best. Whole districts that were in abject poverty, debt-ridden and tormented by usurers, seeking relief for their despair in drink, have become independent, prosperous and well-ordered communities, with beautiful, well-kept and well-stocked farms, smiling villages and happy people. Relief has come to the middle classes, the workingmen and the poor peasants in ways that were never known before. All this was done by organized self-help, under the name of Co-operation.

It is an inspiring story that G. J. Holyoake tells of that little group of twenty-eight workingmen at Rochdale in 1844:

“No avenue seemed open to any human eye by which capital could come to workmen; no telescope could reveal it on the whole horizon of industry.

The pioneers had no funds, nor had they any credit. Money lenders never looked in their direction, nor could they hope for gifts; philanthropists were scarce in workmen's quarters. Plainly there was no help save by creating capital; and there was no method of doing this except by collecting a few shillings to buy some provisions wholesale, sell them to each other at shop prices and save the difference. To many this has seemed ridiculous humility, but it was the only form of self-help open to them, and honest self-help is never ridiculous. Thus was discovered the art of creating capital by those who had none."

These twenty-eight men started by laying up four cents a week, and it was a long time before they had gotten together the \$140 on which they began business. On its forty-fourth anniversary the society which began with nothing ahead, of capital or credit, had 11,223 members, and a capital of \$1,700,000; the sales that year were \$830,000, and the net profits \$165,000!

That was the beginning of the great co-operative movement among the workingmen of England and Scotland which grew until at the end of sixty years it had two million members, a capital of 117 million dollars, sales of four hundred millions, and profits of forty-five millions!

What this movement of the Equitable Pioneers did for the working classes of England and Scotland, the Peoples' banks of Schultze did

for the towns-people and the Raffeisen loan associations for the poor peasants of Germany. By like means Luzzatti lifted the poor of Italy.

Bismarck, who failed in his attempt to reach the same end by State help, persecuted Herr Schultze, who became the apostle of self-help in Germany. Schultze amplified the principle of the joint liability of two or three as security for loans, which the Scotch banks had applied in their "cash credit." Every member of his peoples' bank was liable for all its debts. As a saving feature, he put the management in the hands of the stronger members, but no man held more than one share. All being liable for the indebtedness of every member, each debtor was watched, coached and encouraged by all the shareholders.

These banks spread through Europe, and at the end of thirty-six years from the founding of the first, Dr. Schmidt, of Vienna, estimated the total number of all such institutions at 4,500, with 1,500,000 shareholders, and annual business amounting to \$2,250,000,000!

When Raffeisen began his work for the poor peasants, Western and Southern Germany was, to use the words of Henry Wolff, "a usurer's hell." Debt-ridden and harried by shylocks, with cottages and farms falling into decay and cattle mortgaged, the poor farmers were in ab-

ject, poverty-stricken misery. Now Wolff, Leon Say, Laveleye, Rostand, and the Hungarian Professor Dobransky, all bear testimony to the wonderful redemption.

Shylocks have lost their grip, debts have been paid, and happy independence has taken the place of the misery of poverty and the slavery of debt.

Most significant of all is the testimony of the sober economist, Say :

"All these wonders I have seen," said he, "are the wonders of private initiative and decentralization. It is private initiative, it is the decentralization of credit which is the dominating cause of all this progress in wealth."

"The moral results," said Rostand of the peoples' banks in Italy, "are to my mind superior to the material."

Priests in Germany and Italy have borne remarkable testimony to the effects of these societies, and the Catholic Church has established a number of Raffeisen associations in Italy.

Besides these fruits of co-operation, thrift has piled up in savings banks for the masses of European countries seven billions of money, which stands between them and poverty.

Thrift has done its work in the United States by different methods. The building and loan association is the only conspicuous success in

co-operation, unless it be the work of the farmers' associations. The American, with high wages and large liberty, does not feel the need of co-operation. He puts his money in a savings bank, buys a home or a farm, or establishes himself in some small business. We have seven millions of savings bank depositors and two-thirds of our farmers are proprietors, while the product of the independent artisans in hand trades exceeds a billion a year.

When we really take up co-operation in America it is likely to be on a large scale.

The working people and the middle classes of the United States have accumulated in savings banks and elsewhere enough money to buy out the whole producing machinery of the country. By organization they could buy and control anything in America.

In the savings banks alone they have enough money to build the Panama canal ten times over. While the industrial stocks continue to be unsafe investments, they might buy as much of the canal as the government would let them have, and furnish the government with its part of the money on bonds. This would make it an American enterprise in the best sense.

During the last half century the toiling masses of Europe and North America learned two great lessons: Self-protection and self-help;

self-protection through organization and self-help by thrift.

Through organization they have improved their relations with capital, made themselves more independent, raised the level of wages, and vastly ameliorated the conditions of toil. Through self-help by thrift, eighty million persons in Europe and the United States have erected a bulwark against poverty and now have in savings banks ten billions of dollars. Even in poorly paid Europe these depositors average \$101, and in the United States, \$418.

As yet the work is that of individuals. The magic of combination, which has worked wonders of finance among capitalists, has hardly touched the vast resources of the masses. When they learn the lesson of organization well enough to combine their immense wealth, the results will be beyond computation. Thrift has made these eighty millions free, and the liberty of independence opens to them new fields with possibilities so dazzling that there is danger of intellectual intoxication from the sheer exhilaration of the prospect.

CHAPTER XX

POLITICAL CHANGES

It is impossible to have an industrial revolution without political change. The good of society demands the protection of every class and this can only be assured by securing to each such voice in government as will check and eventually eradicate that worst of all tyranny—class domination.

HERBERT Spencer foreshadows the articulation of society by the jointing together of the organized classes in the political body. The tendency toward differentiation, organization, and articulation of the voting mass is unmistakable. Industrial and social causes separate the voters into classes and the classes when organized and articulated together will make the framework of government. As illustrations of this see what is going on in political parties. One man is put on the ticket as a concession to the labor vote, another as a representative of the farming class, and another as a manufacturer. This is an instinctive recognition of the fact that labor as such, farmers as such, and manufacturers as such, are entitled to a voice in government.

The instincts of humanity are profound and those who see nothing but demagoguery in suggestions of class representation have not looked

below the surface of things. This movement is in obedience to the unerring instinct of the race against the new form of tyranny—the class dominant.

Class representation in government was established in England centuries ago when the guilds were given municipal power conjointly with power to regulate business in their respective trades. This power they retained until they ceased to exist as important industrial factors.

These institutions have in them the element wherein history repeats itself. It has been true from the beginning of society that industrial institutions had a shaping effect on political institutions.

There is between them a connection as close and intimate as that between the alimentary and nervous systems of the human body. The industrial system nourishes the body politic, and the political system governs it.

So long as the voice of government is strong or weak in proportion to the dominance of this or that class, the action of government will be vacillating. Some permanent form of class representation which will give a stable equilibrium of forces is desirable and that is the natural result likely to grow out of present conditions.

The change in the industrial organization of

a country affects the habits of thought in the people. In the trades unions working men are accustomed to certain habits of thought concerning the non-union man. To them he is a scab who should not be allowed to work among respectable wage-earners. In this way they run counter to the cardinal principle of industrial liberty. What effect will this idea have when it has become ingrained in the minds of a majority of the working men?

If they come to be a controlling power in popular elections, it will have a marked effect upon the character of our political institutions. Then they will seek to elect to office men who will support their contention.

Employers have at times been very intolerant of organized labor. Many of them have excluded union men from their shops. In some cases they have boycotted other employers who employed union labor.

Merchants, in their turn, have boycotted co-operative concerns and mail-order houses.

The Farmers' Alliance was equally intolerant of the professional classes. They were opposed to lawyers, merchants, and capitalists. Banks were their especial aversion.

There is hardly a class that has not used pressure of some kind upon other classes when their interests came in conflict.

As the industrial organism becomes articu-

lated, the lines between the classes are sharply defined. They at present consider their interests conflicting and antagonistic. Eventually this spirit is likely to be overcome by the spirit of co-operation that is generated by collective bargaining and joint alliances. But for the present there is sharp antagonism and intense jealousy between the classes.

The difference of social status adds to the difficulty of overcoming this antagonism and for a long time to come it will be with us.

That being true, it will affect political institutions. It will affect political institutions because of the danger of tyranny from any class which happens to have a numerical majority in popular government. When one class is in the majority, others will suffer if there is not in the constitution of the government a provision for the assent of more than one class. The Farmers' Alliance did dominate the legislatures in some of the Southern and Western States for a short time and the effect on legislation was apparent. It was to some extent class legislation, and had the dominance of a single class been long continued, the increase of class legislation would have been rapid.

There has been in Congress much class legislation for the benefit of manufacturers and this has been possible because the manufacturers were solidly organized in a political party which undertook to perpetuate the tariff policy that

suited them and the working men in factories believed that protective duties tended to increase wages. Two classes being allied in the same interest, the legislators were enabled to fasten that system on the country.

The temporary revulsion of sentiment, backed by the agricultural and consuming classes, was not long lived because the classes in favor of protection were well organized, strongly entrenched, and ably led. The result of this policy has been to enrich the manufacturing class and to increase the wages of its working men, while the wages of farm labor remained almost at a standstill and the prices of products limited by world-wide competition continued to be moderate. These facts are cited to show that a class in the majority will use the power of government for its own advantage and very likely to the disadvantage of others. The only way to prevent this is to imbed in the constitution the principle of the concurrent majority of classes which is described by John C. Calhoun in his disquisition on government.

Mr. Calhoun says on page 35 :

"The necessary consequence of taking the sense of the community by the concurrent majority is, as has been explained, to give each interest or portion of the community a negative on the others. It is this mutual negative among its various conflicting interests which in-

vests each with the power of protecting itself and places the rights and safety of each where only they can be securely placed, under its own guardianship. Without this there can be no systematic, peaceful or effective resistance to the natural tendency of each to come into conflict with the others."

Geographically we have the principle of the concurrent majority established in the United States Senate, which is the seat of conservatism in our government. This necessity of the assent of a geographical majority has a tendency to check class legislation, but not strong enough to be effective. It will not be effective for the protection of all classes until the principle of class representation is introduced as a check against class legislation. In a measure this principle has been introduced in local government. The representatives of the labor element have been elected, as such, to seats in municipal bodies and State legislatures. In a few cases labor candidates have been elected to the mayoralty of cities. In the United States Congress there have been representatives of the Farmers' Alliance. In the English Parliament and in the London city government working men have been represented by such men as John Burns.

Auxiliary voluntary organizations like the civic federation, which have a powerful influence on public opinion and indirectly on government, are expressly organized so as to include

class representation. This broad representation inspired confidence in the public mind and generated a spirit of good feeling and mutual respect among the representatives of capital and labor thus brought into association.

This result of class representation in the most conspicuous voluntary civic organization of the United States goes far to justify the contention of Mr. Calhoun that such representation makes for fairness, peace and good morals. The same principle has been exemplified in the collective bargaining, joint conferences, and joint boards of capital and labor:

The principle of class representation having been once firmly established in voluntary associations for industrial and sociological purposes, and its salutary results having been seen and approved by the test of experience, as a natural result, the same principle will be extended to governmental policy. Having taken hold of the public mind, which is always impressed with conspicuous examples of fair dealing, it will by degrees enter into the constitution of government.

The most marked class divisions of the United States are those of capital and labor. In Mr. Calhoun's time they were the agricultural and manufacturing classes, which are still of immense importance.

The third party ever present with labor and capital is the consumer, who pays the price

which results when the wage scale is fixed and the profit of capital is added. The logical evolution of class representation in government would recognize these opposing interests.

The instinctive recognition of this classification of capital, labor, and consumer is seen in the popular dictum so universal since the coal famine of 1902, that there are three parties to every strike and every contest between capital and labor. It was the force of public opinion, roused by the sufferings of the third party, the shivering consumer, that finally brought the anthracite strike to a settlement.

When capital and labor were unorganized the consumer was not appreciably affected by the action in any one case and price was regarded as the sole consequence of economic laws; but when coal miners and coal operators act as one man, with the result of a coal famine and indescribable suffering by innocent parties, the part which society as a whole has in every contest becomes so clear that no man can fail to see it.

If things were allowed to drift, a condition might be reached where Government would be compelled to take over the coal mines for the protection of society. The sufferings of the consumers during the coal famine drove many conservative journals to advocacy of such a course. To prevent such socialism there must be some check on these contests and the best means available are found in the joint agreements which

have steadily grown in favor of late. Eventually some community of ownership by wage-earners would help.

That government can not remain inactive in case of famine is evident. That its action should be wise and fair is essential, and this can only be secured by class representation in government.

The political effects of such representation are shown by Mr. Calhoun's remarks on suffrage. He says:

"Among the advantages which governments of the concurrent majority have over those of the numerical majority and which strongly illustrates their more popular character is that they admit, with safety, a much greater extension of the right of suffrage. It may be safely extended in such governments to universal suffrage; that is, to every male citizen of mature age, with very few ordinary exceptions; but it can not be so far extended in those of the numerical majority without placing them ultimately under the control of the more ignorant and dependent portions of the community. For as the community becomes populous, wealthy, refined and highly civilized, the difference between the rich and the poor will become more strongly marked; and the number of the ignorant and dependent greater in proportion to the rest of the community. With the increase of this difference, the tendency to conflict between

them will become stronger; and as the poor and dependent become more numerous in proportion, there will be, in governments of the numerical majority, no want of leaders among the wealthy and ambitious, to excite and direct them in their efforts to obtain the control.

“The case is different in governments of the concurrent majority. There, mere numbers have not the absolute control, and the wealthy and intelligent, being identified in interest with the poor and ignorant of their respective portions or interests of the community become their leaders and protectors. And hence, as the latter would have neither hope nor inducement to rally the former in order to obtain control, the right of suffrage, under such a government, may be safely enlarged to the extent stated without incurring the hazard to which such enlargement would expose governments of the numerical majority.”

Mr. Calhoun follows this with an argument to show that governments of the concurrent majority tend to generate a conciliatory spirit among the classes, because the assent of all must be obtained and this makes it necessary to be conservative, fair and conciliatory. He compares this with the absolute rule of the numerical majority, which makes a part of the people dominate the remainder, without their consent, and oftentimes in a harsh and tyrannical manner, injurious to their interests. This engenders

bitterness and makes men go to the extremes of slander and fraud in order to obtain political victory and secure control of the government. Such conduct in political affairs affects private morals and the poison spreads through the whole population.

How prophetic this argument of the conditions which obtain in the great cities of the United States! These conditions have arisen since Mr. Calhoun wrote his great work on government and the debasement of the electoral body in cities has come about with appalling swiftness. That political debasement has had its effect upon the citizen in ever-widening circles is clear from the rapid increase of crime and the shocking disrespect for law. Corruption has eaten its way into business life and society has been under the necessity of inventing a word for this new species of turpitude which we call graft.

Those who deplore the stratification of society by class organization and counter-organization will have immense consolation if the class representation in government, which will be the consequence, shall have the effect of staying class legislation and corruption with the ultimate result of raising the standard of morality among the people in the manner described by Mr. Calhoun.

CHAPTER XXI

THE SOCIAL BODY MOVES UPWARD

The body politic has new possibilities when its several parts, having been separately organized, are fitly framed together.

WHAT, then, does it all come to? We may not yet be able to see the end, but clearly it comes to this, that society is not a horde of humanity, but an organism of related and interdependent parts. It is not yet a fully developed organism, but it is rapidly becoming one. Within the past twenty years enormous strides have been made in organizing the various branches of industry and when they are severally organized, they will be ready to be joined together in one frame. The industrial organism has reached the stage where articulation begins, but it can not go far until the faults of early organization are corrected. When articulation has taken place the whole body of industry will be in position to act and move as one being. It has been clearly apparent that the several branches of industry, as they existed separately, were playing their separate parts, each with reference to its own salvation, unconscious of the effect which the consolidation of the different industries would have on the general result. Combination was made to get rid of competition and

effect economy in production and distribution. This was done solely in the interest of the capitalists interested. But when it has been done all through the industrial field a new situation is created and new possibilities arise. It is as if the bones of the industrial frame, each with its appropriate muscles, sinews and nerves, were all at once brought together and united. Immediately the body so constituted, with all its constituent members, enters upon a new era, with new possibilities of locomotion and effort. As in the simpler forms of life, when cell is added to cell until an organ is built up and organs are added until there is a complex, but harmonious organism, so in industry, member is added to member until we have a complex and highly organized body, compactly joined together, but so flexibly that it is capable of an infinite variety of movements.

The division of labor brought about a social classification by which the elements of labor and capital, producer and consumer, carrier, merchant and banker, naturally associated themselves in the separate and highly organized groups which, attached to the framework of industry, constitute its flesh and blood, muscle and ligaments, thus completing the body politic.

What can society do with this body? How can it better serve the whole and all its parts, now that the members are well developed and

the body is joined together? The answer is that the members respond more readily to the demands of society since they are solidified severally and closely knit together, very much as a well muscled arm in a well developed man responds to the command of the brain with more quickness and power than would be possible in a flabby and loose-jointed body. In great emergencies like war or pestilence, when instant action is demanded, an electric thrill leaps along the nerves of organization and impels the whole social body to move as one man.

Highly organized society is better able to resist or throw off social diseases. The great mass of the organized groups of labor, capital, bankers, merchants and carriers, have a common interest in uprooting the graft which has fastened itself upon every kind of business, and they have a like interest in casting out the political corruption which festers in the cities. When all classes bring the power of organization to bear on these evils, their combined influence will make short work of reform.

A distinguished college president has suggested social ostracism as a cure for graft. Whether applied in this penal form or in the inspiring one of applause and distinction for fidelity, the effect of moral force is increased and intensified when the solid phalanx of organization supports it.

Experience has shown that good as well as bad habits are acquired more readily in the ranks of system than anywhere else, because of the perpetual reminder that system gives. Experience in benevolence and church work shows this to be true.

The co-operation of the organized classes in the constructive work of civilization is powerful and inspiring. It has accomplished wonders in great public enterprises for which immense sums of money have been raised in a few days by the emulation of different groups of men. The same method is wonderfully effective in educational work, and is peculiarly powerful in the upbuilding of individual character by the inculcation of habits of thrift, order and self-control. Whole classes have been lifted out of debt by mutual help and encouragement. The work of the peoples' banks in Germany and the Farmers' Alliance in the cotton States are notable examples.

Although the work of sanitation has already lengthened the average life in this country, the regimen of the individual has not been changed or improved to any great extent. The progress so far is mainly in his surroundings. To improve the habits of the man is a work of education in which the moral force of organization is tremendously effective. The attitude of the Brotherhood of Locomotive engineers toward

intemperance shows what organization can do to improve the habits of individuals.

Organization can do a great deal for sanitation by purging the food supply of its many adulterations and protecting the public from poisonous nostrums.

We now see how organization helps to uplift the individual physically, morally and financially by improving his habits. It can then combine the resources of individuals for great work. Its financial possibilities are suggested by the fact that in England co-operation has accumulated enough capital to duplicate the largest plant in that country. In this country a much larger fund of savings awaits investment. It is large enough to control the railroads.

These examples are sufficient to suggest the means and methods by which society, when it acts as an organism, can purge itself of its peculiar ills and lift the masses of mankind to a higher plane. But in all this observe that society as a whole must take its impulse from the initiative of the individual, for neither organ nor function can exist or act in society without the mind and the motive of men.

In what will the difference of life consist when society is a complete organism? If nature teaches any lesson it is that there is a universal frame, as Bacon says, but with it, and all

through it, ample individual liberty and free-will. Within very wide limits the individual is the architect of his own fortunes; so much so that many of the individuals complain because the higher power of government or of divinity does not interfere in their behalf.

The course of society has been similar to that of nature and the likeness becomes more striking as society approaches the state of completed organism.

The socialists expect a different result. They think individualism will disappear as collectivism advances. In industry they take combination to be the forerunner of State socialism. They think the government will be obliged to take over, not only natural monopolies like railways and coal mines, but all productive industries and all the machinery of distribution. They consider this step necessary to protect the masses against tyranny from the capitalists who control industry.

Some economists who are professedly not socialists, admit that if once industry is solidly organized, socialism will follow. It seems to me that this does not follow; not only that, but it is highly improbable. The socialist, in taking it for granted that industry will always be owned by a few, assumes the whole ground for his side of the question. The evidence so far shows a tendency toward a rise of the masses in property, comfort and industrial liberty.

Slow but steady progress is being made by them in getting a share of the ownership and a voice in the control of industry. Eventually they are likely to accomplish in industry what they have accomplished in politics. It is true that the talented few administer government and control politics, but the popular vote determines the case on final appeal. After all the people control.

Under socialism it would not be less true that a few would control industry as well as politics. In the very nature of the case, this must be so, in any condition except mob rule. Even in that the bold and daring spirit quickly becomes the leader. But under socialism, while a few would control, the masses would be hopelessly submerged. The individual would be lost to view and the opportunities for tyranny would be multiplied. At the same time, while the hand of tyranny became strengthened, the habitual supineness of the individual, who constantly leaned on government for everything, would render him too weak to resist the encroachments of tyranny and he would become its easy prey. For this reason I consider it fortunate that there is a reaction against socialism.

The organism of industry is not socialistic but individualistic. The dead-level policy of trade unions shows the effect of socialism. The rise of the masses can never be by socialism, but by the thrift of the individual and his advance

in intelligence, morality and self-control. Not socialism but industrial democracy is the hope of the future. Socialism is coercive and leads to tyranny. The co-operative organization of industry, which we see and which I have described in this book, is voluntary and has in it the spirit of liberty and law.

There are those who call this co-operative spirit socialism. That is with them a matter of definition. I call it voluntary co-operation, and there is a vast difference between voluntary co-operation and State or municipal socialism, which are essentially coercive and tyrannical.

I do not blind myself to the fact that there is a great deal of socialism in existing governmental institutions, but I am not among those who see nothing but a sea of socialism engulfing the human race. A calm retrospect of the course of human institutions has convinced me that society rarely if ever gives itself over wholly to the domination of any one institution. Institutions rise and fall and come and go. It has been so with monarchy, aristocracy, and the more or less attenuated forms of democracy. The only constant factor is the rise of the masses with the spread of intelligence and the increase of comfort. I do not think the race will wholly get rid of socialism in the near future; perhaps not in the distant future. A certain amount of it is necessary to maintain order in thickly populated countries; particularly in cities; but

there is constantly opposing it the robust and salutary force of individualism, which is of the essence of liberty and liberty shall not perish from the earth.

Are we then to regard the trust as a philanthropic institution? By no means. Those who make it work out their salvation under the whip and spur of necessity; self-preservation is the law they obey. They are organized for gain and not for eleemosynary purposes. These industrial combinations are born under the clouds of industrial warfare. They take shape under pressure and are welded together under heat. When the heat of conflict has subsided and the cloud and danger have passed away, it is discovered that they are framed in the cold steel of selfishness—the same material which composes the structure of all industrial institutions. Therefore in dealing with the trust we deal with human nature, animated with such motives as have heretofore actuated it when it possessed large power. The wrongful use of power in this case is checked to some extent by the economic law which makes extortion work its own cure, but still, by the lateral extension of natural monopolies, through their dependencies, and through the welding together by patronage of combinations having a thread of common interest, there is danger that power will become so great as to threaten the subversion of our institutions.

At the risk of being misunderstood I have set forth at length the office of the trust and the benefits, near and remote, which it is likely to confer on the human race, and these I conceive to be very great. But I would not be excusable if I failed to point out at the same time the supreme danger that always accompanies supreme power. It nearly always happens that institutions which have in themselves large capacity for good have also the capacity to do infinite harm, and the institution we call the trust is no exception, but rather a conspicuous example. There is danger of being lulled to false security by the siren voices of certain optimists who see in this new leviathan of industry only a beast of burden, with the docility and power of the Indian elephant, but no element of destructiveness. Such harmless burden bearers exist only in the imagination. There is danger in every useful animal or institution. Since the first outcry of alarm which gave rise to the slogan, "Smash the Trusts," there has been a reaction in public sentiment. It has become apparent that the trust is a necessity of the times, and the public is constantly advised to accept it as a natural development, which needs only to be let alone. Against such advice, it seems to me, every enlightened student of economics and government ought to lift his voice in protest. That the instinct of the public which makes it fear the trust is a true one, was sufficiently proven in the

great anthracite strike, when the contest between a combination of capital on the one side and a combination of labor on the other caused a coal famine, so distressing that it almost drove the country into socialism as a means of self-defense. The logic of such events has overthrown the arguments of the doctrinaires, and if we shut our eyes to the inevitable conflict that is ahead of us, we have no one to blame but ourselves.

Once more let us lift the torch of history upon our path. The rise of feudalism was a natural development of the times, but it crushed and brutalized the masses to such an extent that, though they had been free men, they became viliens, and it took centuries to break the shackles. When the great task came to be done, the government, backed by the masses, had to do it, because there was no other force in society strong enough to cope with the barons. If government had not humbled them, they would have destroyed it. Do we not see a drift of things to the same kind of struggle at the present time? Does it mean nothing that the people everywhere demand of their representatives that government put a check upon the power of corporations and restrain their vast activities within proper channels? Is this a true or false instinct?

It is idle to say that the popular feeling on the subject is a craze. Crazes come and go like

epidemics, but the steady pressure of public opinion for decades, in season and out of season, among all classes and conditions of men, without regard to political party or affiliation, ever better informed and ever more conservative, but ever more confirmed in its belief that there is danger in combination—is such a sentiment to be cast aside as insignificant? Human judgment is fallible, but the common judgment of well-informed men, maintained and confirmed through a long period, has the presumption of verity in its favor. As Abraham Lincoln said, “You can fool some of the people all the time, and all the people sometimes, but it is impossible to fool all of the people all the time.”

This inevitable conflict between government and combination is already begun and it will be the battle royal of modern times. On the one side the corporations, all the time becoming greater and more powerful; holding economic laws in their defense; retaining the ablest lawyers as counsel, and the highest order of talent in their administration; constantly weaving about public men a subtle web of obligation, invisible, and too light to be felt until it is too strong to be broken; too enlightened as a rule for bribery, but past masters in the art of intellectual, moral and political duress; ready in dire extremity to let loose the hell hounds of calumny for the silencing of the voice of the unterrified; ever present in the halls of legislation and the ad-

ministrative circle; neglecting no social influence; conspicuous in the public press, and even invading the pulpit; confident, bold and aggressive, and fully determined to control the government where it touches their interests, they form a government within the government.

Over against this solidified and compactly organized force is the government and behind it are the people. Between the people and the corporations government stands a buffer. Public opinion percolates through the representatives, many men of many minds, some of them dominated by corporate influence, others like demagogues playing to the galleries, many vacillating between these groups, and a few enlightened, free, and firm in their determination to serve the common weal, without fear or favor. Naturally the action of such a government is slow and conservative, moving only as popular pressure forces it, and popular pressure moving only as it is generated in the slow crucible of discussion, discussion itself being hedged about with many limitations. But slowly, inch by inch, like a glacier, government moves toward its object—the control of corporate power. The contest is inevitable, for one or the other must dominate. No country can have two masters. The corporations throw down the gauntlet by their presence in the capitols, blocking reforms, and they are forcing the fight in a thousand ways. It is the same old story and there can be but one end; the

same that came to feudalism. The time required to reach that end depends upon the intelligence and virtue of the people first, and of their representatives secondarily, for without intelligence and virtue in both, they can neither resist the blandishments nor overcome the opposition of these mighty powers. The contest will be shorter and perhaps sharper than that with feudalism, because the people are better informed, are better organized and are already armed with the ballot. Having the majority they ought to prevail. But the popular majority will not make good a settlement of this question if it be unjust to the corporations. Nothing is settled until it is settled right.

I have pictured the inevitable conflict because there can be no peace until it is overpast. Men may cry peace, but only the truth is safe to utter. Rather let us say, "Let there be light"; let us bathe the whole world in its beneficent flood, knowing well that there is no saving health without it, and that progress in darkness is hopeless.

Now if this Titanic struggle is forced upon us by the rising institution of the trust, is this new thing worth while? Is the game worth the candle? Whether we think so or not, we are in the struggle and must sink or swim, live or die, go forward or retreat. But to my mind the benefits will be in proportion to the pains. Society is not in travail for nothing at the birth of its institutions, for "there is a divinity that

shapes our ends, rough hew them as we will."

It were better for the race to have perished than to have remained in barbarism. Before the corner-stone of civilization was laid in the family, primitive man had to pass through the low stages of promiscuity, polyandry and polygamy, up to the monogamous relation, with the establishment of which he was lifted above the rest of the brute creation, with possibilities infinitely greater than before. Yet this great uplift was only the first of many in the slow stages of progress, and with each advance the elevation of the race was so great that from the new plane it could hardly conceive of the depths of degradation from which it had emerged. The same is true even to the present day. We find it difficult to understand the patience with which the world tolerated certain brutalizing customs which were in vogue even a century or a half century ago. The glorious generation which achieved our independence looked complacently on slavery and imprisonment for debt. Public morals were so nebulous that drinking at funerals was tolerated, and there was no shock until the pallbearers got drunk and fell in the grave. It was with difficulty that the Earl of Shaftsbury in 1842 secured the passage of the bill which rescued the women who were beasts of burden in the mines, crawling on their hands and knees and dragging coal cars by a chain fastened to the neck.

This generation lifts up holy hands, like the

Pharisee, thanking God that it is not as other generations were, but rather should it smite its breast in humility and pray the prayer of the publican. Fifty years hence those who are left will look back with horror upon some of the conditions of this day, to which custom makes us callous, and blush with shame at the indifference with which fundamental reforms were regarded. The orgies of corruption in city government, with men bought and public trusts sold in the shambles, let us hope will one day be as the memory of a horrid dream. The cry of little children, robbed of childhood's sunny freedom, stunted in body and dwarfed in mind by unnatural labor in tender years, with the door of opportunity shut in their pale, sad faces, with the darkness of ignorance and the hopelessness of despair settling on their souls, still rises unheeded, or is drowned by the noise of the lobby and the roar of commercialism.

There is something unspeakably cruel in those conditions of our society which turn plenty into want and convert the bounty of nature into a curse.

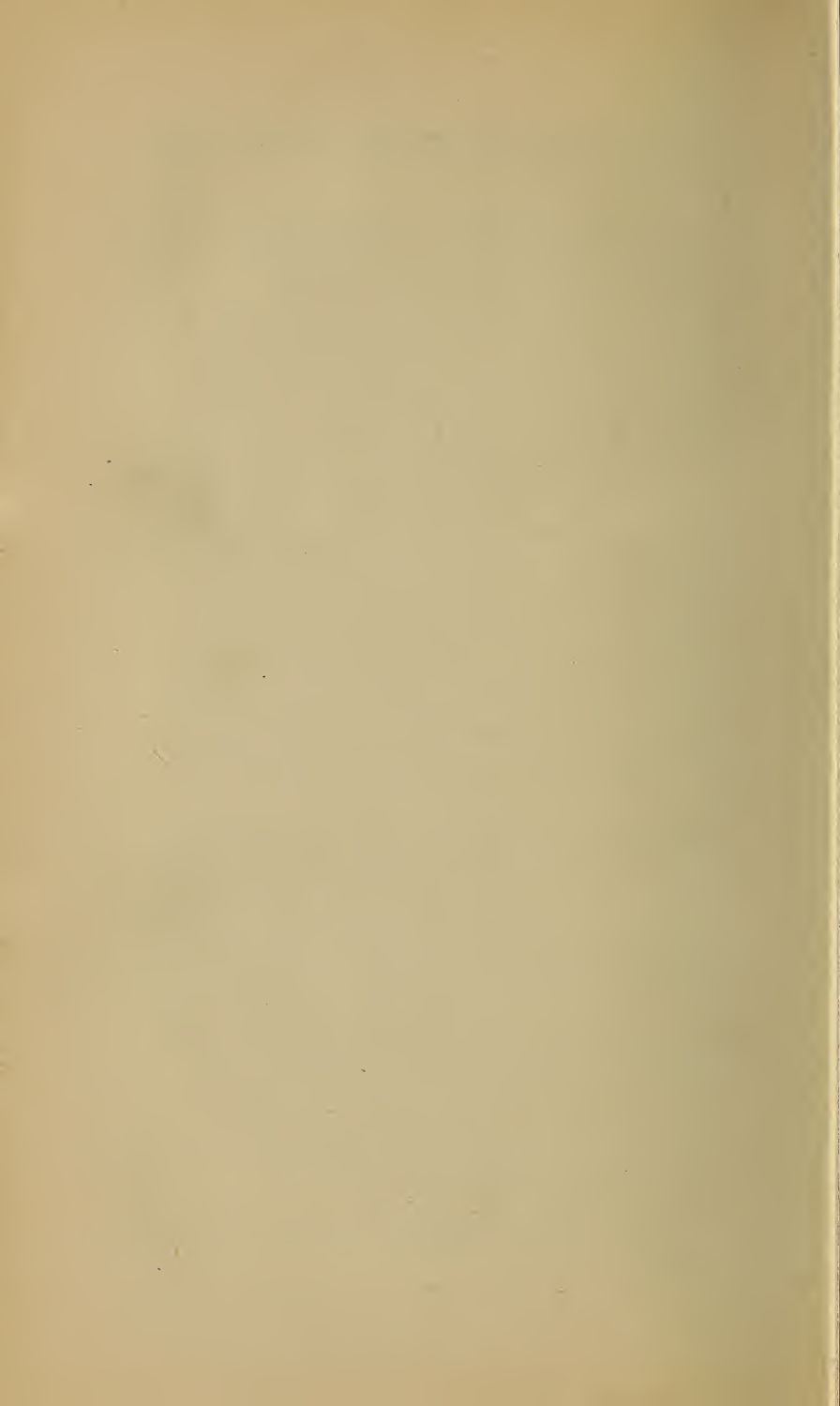
Our vaunted industry mocks itself when its tremendous activity brings an ever-recurring surplus that depresses markets and paralyzes productive energy. How cruel is the irony of fate when the abundance of food causes children to cry for bread and the surplus of fiber brings the producer to rags! This is the dark

riddle of our civilization which the trust will help to solve, and to have solved it will be worth all our generation has done or suffered.

Will the trust liberate the children and establish pure government? Hardly, but it is a stage in the progress that will, just as feudalism, hateful as it was, became a stepping-stone to liberty. We can take but one step at a time. We can not mount the second until we have taken the first, and the trust is the stone that is just ahead of us. It looks like a stumbling-block but *the stumbling-blocks of the present are the stepping-stones to the future*. It is the sinister humor of progress to mock mankind by placing ahead of each generation a bridge of asses which it must cross before any further advance can be made. The trust is the *pons asinorum* of our time.

But there is no reason to be discouraged when doubt and difficulty arise in our path. "The best reforms of this earth come through waste and storm and doubt and suspicion." If the earth rocks we may be sure that elemental forces are at work, and if society cries aloud and its body is almost rent in twain, we may be sure that something great has come to birth.

FINIS.



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